

PARENT COMPANY ACCOUNTS FOR
TELEFLIGHT LIMITED - COMPANY
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British Airways Plc

**Annual Report and Accounts
Year ended 31 December 2016**

Company registration number: 1777777

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Officers and professional advisers

Directors

Alex Cruz	(Chairman & Chief Executive Officer)
Alison Reed	(Deputy Chairman)
Steve Gunning	(Chief Financial Officer)
Gavin Patterson	
Julia Simpson	
Lynne Embleton	

Secretary

Andrew Fleming

Registered office

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PO Box 365
Harmondsworth
UB7 0GB

Parent company

International Consolidated Airlines Group S.A. ("IAG")
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Independent auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Strategic report

The Directors present their Strategic report for the year ended 31 December 2016.

British Airways Plc ('British Airways', 'BA' or 'the Group') is the UK's largest international scheduled airline and one of the world's leading global premium airlines. The Group's principal place of business is London with significant presence at Heathrow, Gatwick and London City airports. Part of International Airlines Group (IAG) and together with joint business agreements, codeshare and franchise partners, British Airways operates one of the most extensive international scheduled airline networks. British Airways is a founding member of the oneworld alliance, whose member airlines serve more than 1,000 destinations to over 150 countries.

The Strategic report is presented in the following three sections:

- Management review;
- Financial review; and
- Principal risks and uncertainties.

Management review

Overview

- Total revenue: £11,443 million, up 1.0% (2015: £11,333 million)
- Operating profit before exceptional items: £1,473 million, up 16.5% (2015: £1,264 million)
- Passengers: 44.5 million, up 2.8% (2015: 43.3 million)

In 2016 the Group operated in a challenging external environment, this included: low fuel prices and interest rates promoting the growth in market capacity and competition; uncertainty following the UK vote to leave the European Union (EU); terrorist attacks in key destination markets; and operational disruption due to adverse weather and air traffic controller strikes. During the year management action sought to mitigate where possible the impact of these challenges and the Group also directly benefited from a low fuel price compared to the prior year. As a result, the Group delivered a record pre-exceptional operating profit of £1,473 million (2015: £1,264 million) for the year, a 16.5% increase on last year. Due to Sterling's depreciation, the Group's revenues generated in overseas currencies benefited, but overall the impact of exchange was negative on the result.

During the year there has been significant change in the senior executive team, including the appointment of a new Chief Executive Officer and Chief Financial Officer. A new business plan, Plan4, has now been developed. The Company's new vision is: to be the airline of choice with personalised service, exceptional reliability, a digital mind-set and unique British style.

Network development and fleet

The Group continues to extend the network further, introducing 20 new flight destinations in 2016. These included new long-haul services to Tehran in Iran, San Jose in California, San Jose in Costa Rica and Lima in Peru, and short-haul flights to Porto in Portugal, Mahon in Menorca, Palermo in Sicily, Biarritz in France and Inverness in Scotland. A fourth London airport was added to the network, launching new flights from Stansted. In 2016 British Airways entered into a new joint business agreement with Qatar Airways, providing customers with better links between the UK and the Middle East, as well as destinations Qatar Airways serve beyond Doha. New codeshare agreements with Alaska Airlines and China Eastern Airlines during the year were also entered into.

The Group continues to modernise its fleet, introducing more fuel efficient new generation technologically advanced aircraft. The last two Airbus A380s entered service during the year taking the total number to twelve. In addition, eleven stretch Boeing 787-9s were added to the fleet. During the year the Group operated more than 290 aircraft, carrying customers to more than 200 destinations in over 80 countries.

Product and service development

Focusing on customer experience in a cost efficient manner is important to the success of the airline. The Group completed a programme to refresh the interior of 18 Boeing 747 aircraft which increased the number of seats in the Club World business cabin. The Group's first installation of WiFi on aircraft was completed in December 2016. British Airways continues to update and renovate the premium customer lounges at key airports, including refurbishing the First Lounge at Heathrow Terminal 5 and lounges at London Gatwick and Dubai. The Group announced an £88 million investment in lounges for Boston, San Francisco, Miami, Chicago, Houston and Seattle. During the year British Airways received the Consumer Superbrands title for a third year in a row, as well as the Business Superbrands title for the second consecutive year. British Airways announced a partnership with Marks and Spencer to start selling food on short haul services within the economy cabin from January 2017, enabling the airline to significantly improve product quality and choice for customers.

Strategic report continued

Operational performance

The peak summer season was operationally difficult, primarily due to factors outside of the airline's control. In particular, air traffic controller strikes in Europe, adverse weather conditions and airspace congestion led to punctuality decreasing by 1% to 77% in 2016 compared to the previous year. However, regularity (defined as the percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons) continued to be above 99%. The Group also rolled out a new check-in and departure control system, FLY, in all stations across the globe during the year.

Cost focus

The Group continues to focus on reducing controllable costs by addressing legacy areas of the cost base. During 2016 an employee restructuring and transformation programme was announced related to initiatives developed to improve the overall efficiency and effectiveness of the Group. A charge of £124 million in respect of this programme was recognised for the year, presented as an exceptional item in the income statement. Further information is provided in Note 5 to the Financial Statements.

Other significant matters

In 2016 BA was proud to partner with TeamGB and ParalympicsGB, providing the teams with flights to and from Rio de Janeiro for the Olympic and Paralympic Games. British Airways was honoured to celebrate Team GB's medallists' achievements with a special gold-nosed 747 charter for the return flights from Rio de Janeiro.

British Airways became the first airline to pledge support for the military and sign up to the UK Armed Forces Covenant. The Group recognises that it can play an important role in supporting the Armed Forces and their families and has committed to offering a 10 per cent discount on all BA operated flights across BA's global network. Additionally, during 2016 BA reviewed and enhanced its policies and practices to ensure that no Modern Slavery is taking place within the business or the supply chains. British Airways continues to work with Comic Relief through our partner charity Flying Start, with the total amount raised now standing at more than £14 million.

Outlook

BA has set a solid foundation for the future, generating a £1,473 million pre-exceptional operating profit in 2016 (2015: £1,264 million). The Group has built a robust plan for the future, Plan4, which will build on this success. Plan4 targets a sustainable return on capital of 15 per cent, with a lease adjusted operating margin in the range of 12-15 per cent. Plan 4 is built around four key strategic pillars:

- Customer – to invest and innovate where customers value it most;
- Operations – to be safe, reliable and responsible;
- Efficiency – to improve capital efficiency and have competitive costs; and
- People – to unleash our true potential.

To invest and innovate where customers value it most

In Plan4 the customer is at the beginning of everything that British Airways is going to do. The Group will make significant investment across all cabins, over the next five years, in order to enhance the customer experience. The programme to install Wi-Fi across the fleet will continue in 2017, with 90 per cent of long-haul aircraft complete by 2019. The first release of new British Airways app was launched in December, giving customers much more control of their journey, enabling them to rebook flights during periods of disruption, giving them more choice and more control. Further releases will be made through 2017.

In Club World, the ambition is to create an experience that exceeds that of key competitors. £400 million will be invested in Club World to transform food and drink offered to customers, delivering a step-change in service. Improve the 'sleep offering' on key overnight flights by changing service routines and provide new bedding and amenities. On the ground, the First Wing in Terminal 5 will open in 2017, allowing First and Gold Executive Club members faster direct access to the lounges after check-in. The Group will also invest significantly in lounges at London Heathrow, Gatwick, New York JFK and Boston. Club Europe will also be reintroduced on UK domestic flights in 2017.

To be safe, reliable and responsible

Operational reliability will remain a key focus over the next five years. British Airways was again more reliable than its key competitors in 2016, with more on-time departures from London than EasyJet and Ryanair according to Civil Aviation Authority (CAA) data. External variables, such as air traffic control, will continue to have a significant effect on operations. From 2017, a new resilience plan aims to improve punctuality through a greater focus on aircraft turnaround and additional summer aircraft availability by re-timing retirements and planned maintenance. Baggage performance will also be improved, especially transfer baggage, through a new integrated baggage system and increased baggage capacity.

Strategic report continued

To improve capital efficiency and have competitive costs

Plan4 includes a programme of initiatives to reduce adjusted non-fuel unit costs over the next five years. Alongside the structural change programmes already announced, new technology will be utilised to increase efficiency and simplify the operations and head office. To improve the capital efficiency of the fleet, where possible, the number of seats will be increased.

To unleash British Airways' true potential

Unleashing the true potential of our people is one of the strategic pillars of Plan4. This strategy will equip colleagues at all levels of the organisation with the skills necessary to deliver and exceed expectations consistently. Delivering high standards of customer service is fundamental to our success.

These four pillars form the foundation of Plan4, focusing on the fundamental issues that must be addressed in order to succeed. This plan will help British Airways become a more agile and efficient company that can innovate and deliver for its customers competitively.

Strategic report continued

Financial review

The financial review provides a summary of the Group's financial results for the year ended 31 December 2016.

Summary financial performance

£ million	2016	2015	Better/(worse)
CONTINUING OPERATIONS			
Total revenue	11,443	11,333	1.0%
Total expenditure on operations before exceptional items	(9,970)	(10,069)	1.0%
Operating profit before exceptional items	1,473	1,264	16.5%
Exceptional items	(84)	(25)	nm
Operating profit	1,389	1,239	12.1%
Non-operating items	107	(144)	nm
Gain on deconsolidation of Avios Group Ltd	70	1,533	nm
Profit before tax	1,566	2,628	(40.4%)
Tax	(221)	(120)	(84.2%)
Profit after tax	1,345	2,508	(46.4%)
CONTINUING OPERATIONS			
Available seat kilometres (ASK) (m)	178,731	174,274	2.6%
Revenue passenger kilometres (RPK) (m)	145,173	142,016	2.2%
Passenger load factor (%)	81.2	81.5	(0.4%)
Passenger revenue per ASK (p)	5.78	5.87	(1.5%)
Passenger revenue per RPK (p)	7.12	7.21	(1.2%)
Non-fuel costs per ASK at constant currency* (p)	4.03	4.04	(0.2%)

*Stated before exceptional items

nm = not meaningful

Revenue

£ million	2016	2015	Better/(worse)
Passenger revenue	10,340	10,238	1.0%
Cargo revenue	589	588	0.2%
Total traffic revenue	10,929	10,826	1.0%
Other revenue	514	507	1.4%
Total revenue	11,443	11,333	1.0%

Revenue for the year was £11,443 million, up 1.0 per cent over the previous year. This included an increase in passenger revenue of £102 million, or 1.0 per cent, due to favourable foreign exchange movements as a result of the weakening of Sterling against all major currencies following the UK referendum vote to leave the EU. There was an underlying adverse movement in passenger revenue due to weak corporate sector business travel, the impact of terrorist attacks in Europe and yield pressure from market capacity and increased competitor capacity specifically on North Atlantic routes.

Available capacity (ASKs) increased by 2.6 per cent as a result of the addition of new aircraft which resulted in an increase in passengers carried.

Strategic report continued

The Group's cargo revenue increased by 0.2 per cent due to favourable foreign exchange movements partially offset by significant yield pressures. The Group continues to focus on premium products.

Other revenue has increased by 1.4 per cent. This has primarily been caused by business growth within BA Holidays following the launch and promotion of new and improved propositions.

Operating costs

£ million	2016	2015	Better/(worse)
Employee costs	2,440	2,455	0.6%
Restructuring	4	27	85.2%
Depreciation, amortisation and impairment	769	761	(1.1%)
Aircraft operating lease costs	159	113	(40.7%)
Fuel, oil and emission costs	2,469	3,031	18.5%
Engineering and other aircraft costs	710	579	(22.6%)
Landing fees and en route charges	877	793	(10.6%)
Handling charges, catering and other operating costs	1,520	1,371	(10.9%)
Selling costs	415	415	0.0%
Currency differences	88	46	(91.3%)
Property, ground equipment and IT costs	519	478	(8.6%)
Total Group expenditure on operations*	9,970	10,069	1.0%
Total Group expenditure excluding fuel*	7,501	7,038	(6.6%)

*Stated before exceptional items.

Fuel costs decreased by £562 million, or 18.5 per cent, to £2,469 million compared to £3,031 million in the prior year. The decrease is mainly attributed to a lower average fuel price, which has decreased from an average of 549 US dollars per metric ton in 2015 to 414 US dollars per metric ton in the current year. This decrease has been partially offset by the adverse impact of foreign exchange caused by the weakening of Sterling against the US Dollar following the UK referendum vote to leave the EU and by the increase in volume. British Airways continues to benefit from the performance of next generation aircraft which are more fuel efficient.

Group expenditure excluding fuel increased to £7,501 million (2015: £7,038 million) principally driven by an increase in ASKs of 2.6 per cent as well as the weakening of the Sterling against all major currencies.

Depreciation, amortisation and impairment have increased marginally by 1.1 per cent. The amount includes an impairment charge of £12 million on the Openskies operation in France. Engineering and other aircraft costs increased 22.6 per cent, driven by higher flying hours and weaker Sterling exchange rates partially offset by lower material consumption. Handling charges, catering and other operating costs increased by 10.9 per cent owing to increased activity in BA Holidays, increased volume, additional compensation fees and baggage claims related to operational disruption, and adverse exchange movements, partially offset by operational cost saving initiatives.

Aircraft lease costs have increased by 40.7 per cent primarily due to additional Boeing 787, Airbus A319 and Airbus A320 aircraft being financed under operating lease agreements and adverse Sterling exchange movements.

Operating profit

During the year the Group achieved a pre-exceptional operating profit of £1,473 million (2015: £1,264 million), exceeding the previous record that was set in 2015. Post-exceptional operating profit increased by 12.1% to £1,389 million (2015: £1,239 million). The Group will continue to focus on profitability over the coming years to finance the investment in new aircraft and ensure the Group is financially robust for the future.

Strategic report continued

Exceptional items

The Group made changes to the US PRMB (Post-Retirement Medical Benefits) during the period to bring the level of benefits in line with national trends in the US. This scheme is accounted for in a similar way to a defined benefit plan, so any reduction in benefits results in the recognition of a past service gain when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of £40 million in the period, and a related tax charge of £8 million. Additionally, the Group recognised an employee restructuring and transformation programme charge of £124 million (with a related tax credit of £25 million) related to initiatives developed to improve British Airways' overall efficiency and effectiveness.

Non-operating items

Non-operating items result in an income of £177 million in the current year (2015: £1,389 million).

Gain on disposal of property, plant and equipment and investments

On 28 January 2015, BA entered into a business transfer agreement with Avios Group Limited ('AGL') which transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in AGL. BA's shareholding in the new, larger, AGL business is 86 per cent. BA has the power to participate in the financial and operating policy decisions of AGL but does not control or jointly control those policies. From 28 January 2015 AGL was derecognised as a subsidiary of BA and recognised as an associate at the fair value of the retained interest. A gain on loss of control of a subsidiary of £1.5 billion was recognised within non-operating costs, representing the fair value of the shares received above the net assets disposed. An additional gain on loss of control of a subsidiary of £70 million has been recognised in the current period following an adjustment to the net assets that were disposed.

Taxation

The tax charge on continuing operations for 2016 was £221 million (2015: £120 million), which includes £17 million relating to exceptional items, as discussed above. The Group profit before tax was £1,566 million including the £70 million additional gain on the loss of control of AGL, which is not taxable, and £147 million post-tax share of associate's profits. After adjusting for these items and the impact of tax rate changes, the Group's effective tax rate was 19.2 per cent (2015: 19.8 per cent), compared to the UK corporation tax rate of 20 per cent.

During the year, the net deferred tax liability decreased by £220 million to £62 million, driven primarily by increased defined benefit pension liabilities given significant actuarial losses recognised in the year. The effects of rate changes have also reduced the deferred tax liability.

Capital expenditure

Total capital expenditure in the year amounted to £1,755 million (2015: £1,073 million). This comprised: £1,640 million in fleet-related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments) and £115 million on property, equipment and software.

During the year the Group took delivery of two Airbus A380 aircraft, eleven Boeing 787-9 aircraft, two Embraer E190 aircraft and one Airbus A320.

Liquidity

The Group's liquidity position remains strong with £2.5 billion of cash, cash equivalents and other interest-bearing deposits (2015: £2.0 billion). Net debt at the end of the year was £2.7 billion (2015: £2.5 billion). This increase arose from financing for new aircraft. Refer to note 20 of the financial statements for further information on net debt.

In addition, the Group had undrawn long-term committed aircraft financing facilities totalling £0.9 billion (2015: £1.6 billion) and further committed general facilities of £0.8 billion (2015: £1.2 billion).

Pensions

As reported in previous years, the Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme. BA is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which BA may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, which sees deficit payments of £55 million per annum until March 2023. BA initiated legal proceedings to determine the legitimacy of the additional discretionary increase. This discretionary increase has not been reflected in the accounting assumptions used. As a result of the litigation, the triennial valuation as at 31 March 2015 has been deferred until the conclusion of the case. The Company and the Trustees are committed to commencing the valuation work as soon as practicable.

In December 2016 BA reached agreement with the Trustees of the New Airways Pension Scheme (NAPS) on the latest triennial valuation. The valuation is based on the scheme's funding position as at 31 March 2015 and reflects BA's improved financial position since the March 2012 valuation. The funding deficit now stands at £2.8 billion, and BA will make fixed deficit contributions of £300 million per year until 2027. The agreement provides BA with the flexibility to make dividend payments to IAG of up to 35% of profit after tax before further contributions to the schemes are required.

Strategic report continued

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, exposes the Group to a number of significant risks. The Group remains focused on mitigating these risks at all levels in the business, although many remain outside the Group's control such as government regulation, adverse weather, pandemics, fuel prices and foreign exchange. The risks and uncertainties described below are the ones that are expected to have the most significant impact on the Group. The list presented is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

Strategic

Competition

The markets in which the Group operates are highly competitive. Direct competition is faced from other airlines on routes, as well as from indirect flights, charter services and from other modes of transport. Competitor capacity growth in excess of demand growth could materially impact margins. Some competitors have cost structures that are lower than BA or have other competitive advantages such as being supported by government intervention. Fare discounting by some competitors has historically had a negative effect on the Group's results because a response is generally required to competitors' fares to maintain passenger traffic. In addition the low cost model continues to be extended into long-haul by competitors.

The Group's strong global market positioning, leadership in strategic markets, alliances and diverse customer base continues to address this risk. The Group is continually reviewing its product offerings and responds through initiatives to improve customer experience.

Digital disruption

Competitors, or new entrants to the travel market, may use digital technology to disrupt the business. The Group's focus on the customer, together with BA's own exploitation of digital technology, reduces the impact digital disrupters can have.

Consolidation and deregulation

Although the airline industry is competitive, BA believes that the customer would benefit from further consolidation. This may involve further airline failures or consolidation leading to opportunities to capture market share and expand the Group. Mergers and acquisitions amongst competitors have the potential to adversely affect BA's market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive.

The airline industry is increasingly dependent on alliances and BA is no exception to this. Maintaining a leading presence in oneworld and ensuring the alliance itself performs as expected by the members is key in safeguarding the network.

Joint Businesses

Some of BA's revenue is within joint businesses. BA is subject to the risks of these joint businesses and potentially the risks which may impact BA's business partners. Strong governance and financial controls exist for each joint business.

Government intervention

Regulation of the airline industry is increasing and covers many of the Group's activities including safety, security, route flying rights, airport slot access and environmental controls. The ability to both comply with and influence any changes in these regulations is key to maintaining performance. Government taxes such as Air Passenger Duty, may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit BA's competitors by reducing the relative cost of doing business from their respective hubs.

Infrastructure constraints

Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, the Group is vulnerable to short-term operational disruption. In October, the UK government confirmed a third runway expansion at Heathrow. This proposal is subject to approval in Parliament. The Group continues to promote an efficient, cost-effective, ready to use and fit for purpose infrastructure development at the Heathrow airport.

Airport, transit and landing fees and security charges represent a significant operating cost to BA. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not. BA is therefore particularly sensitive to Heathrow and Gatwick charges and how infrastructure developments are prioritised at these airports.

Brand reputation

BA's brand has significant commercial value. Erosion of the brand, through either a single event or series of events, may adversely impact the Company's leadership position with customers and could ultimately affect future revenue and profitability. The Group regularly monitors customer satisfaction through the global customer survey, alongside ongoing research and development of the BA product, in order to mitigate this risk. BA allocates substantial resources to safety, operational integrity, on-board product and new aircraft to maintain its leadership position.

Strategic report continued

Business and operational

Economic conditions

The Group's revenue is highly sensitive to economic conditions in the markets it operates in. Deterioration in either the domestic and/or global economy may have a material impact on the reported financial position.

In June, the result of the UK referendum was to leave the EU. The Group continues to review the risk to ensure that it is able to operate normally during the transition. At this stage, the Group does not expect a significant impact in the longer term on the business, although the position will continue to be reviewed.

Employee relations

BA has a large unionised workforce. Collective bargaining takes place on a regular basis and a breakdown in the bargaining process and any subsequent industrial action may disrupt operations and adversely affect business performance. Management maintains regular communication using various forums to keep colleagues informed about the competitive context, progress on the delivery of the business plan and important events affecting the Group.

Failure of critical suppliers

BA is significantly dependent on critical suppliers particularly as industry supply chains are becoming more complex and outsourcing is increasing. Failure of a critical supplier to deliver to contract may have a significant impact on operational performance and customer delivery. BA has robust contingency plans and maintains regular oversight of suppliers to manage the risk of supplier failure.

Failure of a critical IT system

BA is dependent on IT systems for many of its principal business processes. The failure of a key system may cause significant disruption to operations and result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

Cyber attack

Financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, terrorists or foreign governments. A Group Cyber Security Governance Board reviews the Group IT security strategy, cyber risk initiatives and considers advice from industry experts with group wide initiatives to enhance defences and response plans. Whilst BA ensures it is up to date with industry standards and addresses identified weaknesses, the fast moving nature of this risk means that a level of vulnerability will always be retained.

Pandemic

If there is a significant outbreak of an infectious disease, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. The Group has comprehensive business continuity plans.

Safety and security incidents

The safety and security of customers and employees is fundamental for BA. Failure to prevent or respond effectively to a major safety or security incident may also adversely impact operations and financial performance. The Safety Committee satisfies itself that BA has appropriate safety resources and procedures. The Crisis Management Centre responds in a structured way in the event of an incident.

Event causing significant network disruption

Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system, failure of the air traffic control system, the complete or partial loss of the use of terminals at Heathrow, adverse weather conditions (such as snow, fog or volcanic ash), widespread or coordinated air traffic control industrial action, war, civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost. Management has implemented robust business continuity plans to mitigate these risks to the extent feasible.

Financial

Foreign exchange and slow-moving cash

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies along with currency devaluation of cash held in currencies other than the airline's local currency (Sterling). This risk is minimised by holding cash in Sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. The Group continued to experience delays in the repatriation of funds from Nigeria during 2016 and at the year-end held balances of £15 million equivalent in Nigerian Naira.

Debt funding

The Group carries substantial debt that needs to be repaid or refinanced. The ability to finance ongoing operations and committed future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft

Strategic report continued

Debt funding continued

financing. The Group carries substantial cash reserves and committed financing facilities to mitigate the risk of short-term interruptions to the aircraft financing market.

Fuel price

Volatility in the price of oil and petroleum products can have a material impact on the Group's operating results. This price risk is partially hedged through the purchase of oil derivatives in forward markets, which can generate a profit or a loss. The financial risks faced by the Group are covered in more detail in note 26 to the financial statements.

Geopolitical tensions

Instability from geopolitical factors in any of our markets may have a detrimental impact on revenue and operating costs. BA maintains ongoing oversight of all markets and can adapt operational plans and capacity when prudent.

Pensions

Negative movements in pension asset values and financial returns from these assets may increase the size of the pension deficit. Management regularly reviews the status of the pension funds and remain committed to taking appropriate action.

The Group is exposed to the risks of operating underfunded defined benefit pension schemes that are open to future accrual. The deficit in NAPS is highly sensitive to small changes in bond yields. Management regularly reviews the funding status of the pension schemes and is in regular dialogue with the scheme's Trustees on funding and investment decisions. BA is committed to paying the agreed recovery plans for its two UK defined benefit schemes, APS and NAPS, and ensuring that the benefits members have already earned are protected.

Compliance and regulatory

Compliance with competition, bribery and sanctions laws

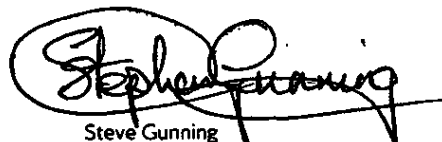
The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in fines or losses to the Group. The Group has comprehensive policies and training schemes in place to educate colleagues.

In addition, the Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. Additional information is provided in note 32.

The Strategic report is approved by the Board and signed on its behalf by:



Alex Cruz
Chairman and Chief Executive Officer
24 February 2017



Steve Gunning
Chief Financial Officer
24 February 2017

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

Business review

A review of the Group's business, future developments and principal risks is detailed further on pages 2 to 10 of the Strategic report.

Results and dividends

The pre-exceptional operating profit for the year ended 31 December 2016 amounted to £1,473 million (2015: £1,264 million).

An interim dividend of £350 million was paid in September 2016.

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 31 December 2016 (2015: £nil).

Directors

The Directors who served during the year and since the year end are as follows:

Alex Cruz	appointed 31 March 2016
Keith Williams	resigned 31 March 2016
Alison Reed	
Steve Gunning	appointed 26 February 2016
Nick Swift	resigned 26 February 2016
Andrew Crawley	resigned 7 January 2016
Ken Smart	resigned 19 July 2016
Gavin Patterson	
Garrett Copeland	resigned 22 September 2016
Julia Simpson	
Lynne Embleton	appointed 7 January 2016

Company Secretary

Andrew Fleming

Employment policies

The employment policies aim to balance the rights of colleagues along with the responsibilities of the Group in order to drive the business forward. The policies are regularly reviewed and updated with input from colleagues that represent different areas of the business. The overall aim is to have policies that are fair, legally compliant, and cost effective as well as empowering line managers.

BA continues to drive genuine and effective engagement with colleagues, putting the customer at the forefront of everything it does and maintaining a high performing organisation. BA's objective is to have involved colleagues, with deep knowledge of their customers, who are empowered to deliver outstanding customer service.

There is a framework in place for consultation with colleagues, through direct engagement as well as collective bargaining, enabling everyone to have an open and honest dialogue with the Group. Regular briefings (including updates on financial and economic factors affecting the performance of the Group) are held across the airline. Other communication channels include live online forums, a personalised intranet, mobile SMS and video messages and a range of BA-wide and local newsletters.

BA is committed to delivering packages that reward colleagues for their performance and contribution to the business and allow us to attract, retain and grow existing and future talent. BA drives the involvement of colleagues in the Group's performance through the employee bonus scheme and the IAG group share schemes for eligible employees.

As a responsible organisation, disability is taken very seriously and applications are welcomed from individuals with disabilities. BA aims to employ the most talented people and thus has procedures in place to ensure that individuals with disabilities are supported in reaching their full potential by making reasonable adjustments for them in the workplace. BA has held the Two Ticks disability symbol for more than six years as recognition both of our commitment to encourage job applications from disabled people and to support disabled colleagues within BA.

Directors' report continued

Wellbeing and Inclusion is a key part of BA's people strategy. Mandatory training on inclusion principles, and how to avoid discrimination, continues for all colleagues and managers to ensure that BA has a culture of fairness and respect and all our colleagues feel supported and able to be their best at work

Ensuring employees feel valued for who they are is a passion that drives the Group's work. BA works proactively to support employees' physical, mental and social wellbeing and promote inclusion through local wellbeing advisers who seek to inform and engage colleagues in wellbeing issues. As part of the Group's diversity and inclusion strategy, the Group is committed to increasing the gender balance in engineering and pilot communities through working with schools and colleges to promote opportunities in science, technology, engineering and mathematics (STEM) related careers. The Group ensures all colleagues are aware of their responsibilities through the provision of mandatory training on diversity and inclusion to foster dignity and respect in the workplace.

Political donations

The Group does not make political donations or incur political expenditure and has no intention of doing so.

Internal control and risk management

Corporate Governance

As the shares of the Company are not listed, it is not required to comply with the UK Corporate Governance Code. However, as the Company continues to be an issuer of listed debt it remains subject to certain provisions of the Companies Act 2006, Listing Rules and the Disclosure and Transparency Rules. In order to comply with these provisions, certain information about the Company's Corporate Governance is detailed in this report.

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the process for the preparation of consolidated financial statements. During the year, no changes in risk management and internal control systems over financial reporting have occurred that have materially affected, or are reasonably likely to materially affect, the Group's financial reporting.

Internal control framework

Effective Corporate Governance remains key to the business. The Group continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. During the reporting period, the effectiveness of the framework was regularly reviewed by the Leadership Team.

Business controls are reviewed on an ongoing basis by the internal audit function through a programme based on risk assessment. Professionally qualified personnel manage the department with experience gained from both inside and outside the industry. A risk-based audit plan, which provides assurance over key business processes and commercial and financial risks facing the Group, is approved by the IAG Audit Committee half-yearly.

The BA Board considers significant control matters raised by management and both the internal and external auditors, and reports its findings to the IAG Audit Committee. Where weaknesses are identified, the BA Board ensures that management take appropriate action.

Risk management

The Group has a structure and process to help identify, assess and manage risks. This comprehensive risk management process and methodology has been in place throughout the reporting period to which these statements apply and up to the date of their approval.

Risk owners are responsible for identifying risks within their area of responsibility, quantifying the risk and managing the risk including putting in place appropriate response plans. They are supported by risk management professionals in IAG. The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk. The outcome includes a heat map which plots each critical risk on an impact and probability scale.

The risk heatmap is reviewed every six months by the Leadership Team and the IAG Head of Enterprise Risk Management to ensure that risks are appropriately evaluated and any further actions identified. This is then reported to the BA Board to assist in the management of risk.

The principal risk and uncertainties are detailed further on pages 8 to 10 of the Strategic report.

Overseas branches

The Group flies to a number of destinations around the world. In addition to the overseas branches established in many of these countries, there are also branches in countries to which BA does not fly. A full list of destinations can be found on the website www.ba.com.

Directors' report continued

Going concern

The business activities, performance, strategy and risks of the Group are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in the financial review on pages 5 to 7 of the Strategic report, and further information is provided in note 26 of the financial statements.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

Events after the balance sheet date

No significant events have taken place post the balance sheet date.

Directors' and Officers' liability insurance and indemnities

IAG purchased insurance against Directors' and Officers' liability covering the IAG Group, as permitted by the Companies Act 2006, for the benefit of the Directors and Officers.

The Company has granted rolling indemnities to the Directors and the Secretary, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as officers of companies within the Group. These indemnities also set out the terms on which the Company may, in its discretion, advance defence costs. The indemnities were in force during the whole of the financial year or from the date of appointment in respect of Officers who joined during 2016 and remain in force.

The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the Directors of four companies, British Airways Pension Trustees Limited, British Airways Pension Trustees (No 2) Limited, Airways Pension Scheme Trustee Limited and New Airways Pension Scheme Trustee Limited, that act as trustees of the Company's UK pension schemes. These indemnities were in force throughout the last financial year or from the date of appointment in respect of Officers who joined during 2016 and remain in force.

Auditors

In accordance with Section 489 of the Companies Act 2006, resolutions concerning the re-appointment of the auditor, Ernst & Young LLP and authorising the Directors to set their remuneration will be proposed at the next Annual General Meeting.

Directors' statement as to disclosure of information to the auditor

The Directors who are members of the Board at the time of approving the Directors' report and business review are listed above. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief there is no information relevant to the preparation of the auditor's report of which the Group's auditor is unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to make him or herself aware of relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

Directors' responsibilities statement in relation to the financial statements

The Directors as listed are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable UK law and those International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The Directors are required to prepare financial statements for each financial period, which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors as listed are responsible for keeping adequate accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to DTR 4

The Directors as listed confirm that, to the best of each person's knowledge:

- The Group financial statements in this report, which have been prepared in accordance with IFRS as adopted by the European Union, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as a whole; and
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by


Andrew Fleming
Company Secretary
24 February 2017

Company registration number - 1779777

Independent auditor's report to the members of British Airways Plc

We have audited the financial statements of British Airways Plc for the year ended 31 December 2016 which comprise Group consolidated income statement, the Group statement of other comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statement of changes in equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

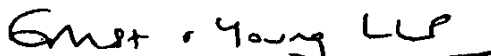
- based on the work undertaken in the course of the audit
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2017

Group consolidated income statement

For the year ended 31 December		Group	
E million	Note	2016	2015
CONTINUING OPERATIONS			
Passenger revenue		10,340	10,238
Cargo revenue		589	588
Traffic revenue		10,929	10,826
Other revenue		514	507
Total revenue	4	11,443	11,333
Employee costs	8	2,440	2,455
Restructuring	8	4	27
Depreciation, amortisation and impairment	6	769	761
Aircraft operating lease costs	6	159	113
Fuel, oil and emission charges		2,469	3,031
Engineering and other aircraft costs		710	579
Landing fees and en route charges		877	793
Handling, catering and other operating costs		1,520	1,371
Selling costs		415	415
Currency differences		88	46
Property, IT and other costs		519	478
Total expenditure on operations before exceptional items		9,970	10,069
Operating profit before exceptional items		1,473	1,264
Exceptional items	5	(84)	(25)
Operating profit after exceptional items	6	1,389	1,239
Gains/(losses) on derivatives not qualifying for hedge accounting		34	(121)
Finance costs	9	(145)	(147)
Finance income	9	22	24
Net financing credit/(charge) relating to pensions	31b	10	(9)
Net currency retranslation charges		(18)	(13)
Share of post-tax profits in associates accounted for using the equity method	17	147	149
Gain on disposal of property, plant and equipment and investments		123	1,502
Net gain relating to available-for-sale financial assets		4	4
Profit before tax		1,566	2,628
Tax	10	(221)	(120)
Profit after tax		1,345	2,508
Attributable to:			
Equity holders of the parent		1,329	2,493
Non-controlling interest		16	15
		1,345	2,508

The above results are all in respect of continuing operations.

The prior year consolidated income statement includes reclassifications to conform to the current year presentation. Refer to note 2 for further details

Group statement of other comprehensive income

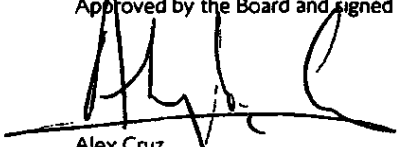
For the year ended 31 December		Group	
£ million	Note	2016	2015
Profit after tax for the year		1,345	2,508
Other comprehensive income:			
Items that will not be reclassified to the income statement			
Remeasurement of post-employment benefit obligations	31c	(1,829)	152
Income taxes	10	369	(37)
		(1,460)	115
Items that may be reclassified to the income statement			
Currency translation differences	30a	32	(9)
Fair value movements in equity on cash flow hedges	30a	(405)	(684)
Fair value of cash flow hedges reclassified to the income statement	30a	506	892
Share of other movements in reserves of associates	17	20	(1)
Available-for-sale financial assets - marked to market	30a	3	(8)
Available-for-sale financial assets - recycled to income statement	30a	(1)	1
Income taxes	10	(31)	(42)
		124	149
Total other comprehensive (loss)/income		(1,336)	264
Total comprehensive income for the year (net of tax)		9	2,772
Attributable to:			
Equity holders of the parent		(7)	2,757
Non-controlling interest	30a	16	15
		9	2,772

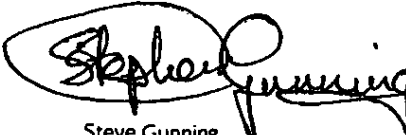
Balance sheets

As at 31 December		Group		Company	
£ million	Note	2016	2015	2016	2015
Non-current assets					
Property, plant and equipment:					
Fleet	12	7,105	7,066	6,866	6,813
Property	12	784	802	748	765
Equipment	12	235	252	229	239
		8,124	8,120	7,843	7,817
Intangibles:					
Goodwill	15	40	40	-	-
Landing rights	15	656	665	643	643
Emissions allowances	15	3	6	3	6
Software	15	293	270	284	270
		992	981	930	919
Investments in subsidiaries	17	-	-	1,315	1,315
Investments in associates accounted for using the equity method	17	1,857	1,775	1,563	1,563
Available-for-sale financial assets	18	53	47	40	40
Employee benefit assets	31a	866	697	866	697
Deferred tax assets	10	-	-	29	-
Derivative financial instruments	27	61	12	61	12
Other non-current assets	19	447	340	526	441
Total non-current assets		12,400	11,972	13,173	12,804
Non-current assets held for sale	14	-	4	-	4
Current assets and receivables					
Inventories		133	139	131	136
Trade receivables	19	710	541	693	527
Other current assets	19	594	614	783	760
Derivative financial instruments	27	139	59	139	60
Other current interest-bearing deposits	20	1,425	1,199	1,425	1,199
Cash and cash equivalents	20	1,070	848	1,003	790
		2,495	2,047	2,428	1,989
Total current assets and receivables		4,071	3,400	4,174	3,472
Total assets		16,471	15,376	17,347	16,280
Shareholders' equity					
Issued share capital	28	290	290	290	290
Share premium	28	1,512	1,512	1,512	1,512
Other reserves ¹	30	2,239	2,596	2,886	2,399
Total shareholders' equity		4,041	4,398	4,688	4,201
Non-controlling interests	30	200	200	-	-
Total equity		4,241	4,598	4,688	4,201
Non-current liabilities					
Interest-bearing long-term borrowings	23	4,470	3,782	4,745	4,020
Employee benefit obligations	31a	1,991	618	1,960	602
Deferred tax liabilities	10	62	282	-	193
Non-current provisions	25	307	233	237	156
Derivative financial instruments	27	5	101	5	101
Other non-current liabilities	22	61	62	38	36
Total non-current liabilities		6,896	5,078	6,985	5,108
Current liabilities					
Current portion of long-term borrowings	23	680	728	689	706
Trade and other payables	21	4,336	4,197	4,712	5,559
Derivative financial instruments	27	18	548	23	550
Current tax payable	10	64	69	46	29
Current provisions	25	236	158	204	127
Total current liabilities		5,334	5,700	5,674	6,971
Total equity and liabilities		16,471	15,376	17,347	16,280

¹ The profit for the year for the company is £2,218 million (2015: £2,395 million)

Approved by the Board and signed on its behalf by


 Alex Cruz
 Chairman and Chief Executive Officer
 24 February 2017


 Steve Gunning
 Chief Financial Officer
 24 February 2017

Cash flow statements

For the year ended 31 December		Group		Company	
£ million	Note	2016	2015	2016	2015
CONTINUING OPERATIONS					
Cash flow from operating activities					
Operating profit		1,389	1,239	1,339	1,176
Exceptional items		84	25	82	25
Operating profit before exceptional items		1,473	1,264	1,421	1,201
Depreciation, amortisation and impairment	6	769	761	735	723
Cash payments to pension schemes (excluding service costs)	31b&d	(573)	(302)	(572)	(301)
Movement in working capital and other non-cash movements		50	(320)	19	(352)
Interest paid		(113)	(113)	(130)	(101)
Taxation		(104)	(100)	(104)	(98)
Net cash generated from operating activities		1,502	1,190	1,369	1,072
Cash flow from investing activities					
Purchase of property, plant and equipment and intangible assets		(1,755)	(1,073)	(1,746)	(1,067)
Investment in subsidiaries	17	-	-	(8)	(7)
Sale of property, plant and equipment and intangible assets		1,008	36	1,008	36
Dividends received	17	105	12	117	64
Loan repaid by/(made to) related party		34	(292)	34	(292)
Interest received		25	23	25	23
Other investing movements		4	7	3	8
(Increase)/decrease in other current interest-bearing deposits		(227)	650	(227)	650
Net cash used in investing activities		(806)	(637)	(794)	(585)
Cash flow from financing activities					
Proceeds from long-term borrowings		729	459	729	459
Repayments of borrowings		(405)	(122)	(327)	(96)
Repayment of finance leases		(419)	(470)	(396)	(468)
Dividends paid		(351)	(259)	(351)	(259)
Loan received from related party		-	29	-	29
Distributions made to holders of perpetual securities		(16)	(15)	-	-
Net cash flow from financing activities		(462)	(378)	(345)	(335)
Net change in cash and cash equivalents from continuing operations		234	175	230	152
Net foreign exchange differences		(12)	(1)	(17)	19
Cash and cash equivalents at 1 January		848	674	790	619
Cash and cash equivalents as at 31 December	20	1,070	848	1,003	790

Statement of changes in equity

For the year ended 31 December 2016

Group

£ million	Issued capital	Share premium	Other reserves (note 30)	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
Balance at 1 January 2016	290	1,512	2,596	4,398	200	4,598
Profit for the year	-	-	1,329	1,329	16	1,345
Other comprehensive loss for the year	-	-	(1,336)	(1,336)	-	(1,336)
Total comprehensive (loss)/income for the year	-	-	(7)	(7)	16	9
Dividends	-	-	(350)	(350)	-	(350)
Distributions made to holders of perpetual securities	-	-	-	-	(16)	(16)
As at 31 December 2016	290	1,512	2,239	4,041	200	4,241

For the year ended 31 December 2015

Group

£ million	Issued capital	Share premium	Other reserves (note 30)	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
Balance at 1 January 2015	290	1,512	98	1,900	200	2,100
Profit for the year	-	-	2,493	2,493	15	2,508
Other comprehensive income for the year	-	-	264	264	-	264
Total comprehensive income for the year	-	-	2,757	2,757	15	2,772
Dividends	-	-	(260)	(260)	-	(260)
Cost of share-based payment (net of tax)	-	-	1	1	-	1
Distributions made to holders of perpetual securities	-	-	-	-	(15)	(15)
As at 31 December 2015	290	1,512	2,596	4,398	200	4,598

For the year ended 31 December 2016

Company

£ million	Issued capital	Share premium	Other reserves (note 30)	Total equity
Balance at 1 January 2016	290	1,512	2,399	4,201
Profit for the year	-	-	2,218	2,218
Other comprehensive loss for the year	-	-	(1,381)	(1,381)
Total comprehensive income for the year	-	-	837	837
Dividends	-	-	(350)	(350)
As at 31 December 2016	290	1,512	2,886	4,688

For the year ended 31 December 2015

Company

£ million	Issued capital	Share premium	Other reserves (note 30)	Total equity
Balance at 1 January 2015	290	1,512	(7)	1,795
Profit for the year	-	-	2,395	2,395
Other comprehensive income for the year	-	-	270	270
Total comprehensive income for the year	-	-	2,665	2,665
Dividends	-	-	(260)	(260)
Cost of share-based payment (net of tax)	-	-	1	1
As at 31 December 2015	290	1,512	2,399	4,201

1 Authorisation of financial statements and compliance with IFRSs

The Group's and Company's financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 24 February 2017 and the balance sheets were signed on the Board's behalf by Alex Cruz and Steve Gunning. British Airways Plc is a public limited company limited by shares incorporated, registered and domiciled in England. The company's registered office is Waterside, PO Box 365, Harmondsworth, UB7 0GB.

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union (IFRSs as endorsed by the EU). The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

2 Significant accounting policies

Basis of preparation

The basis of preparation and accounting policies set out in this Report and Accounts have been prepared in accordance with the recognition and measurement criteria of IFRSs, which also include International Accounting Standards ('IASs'), as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB.

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value.

The Group's and Company's financial statements are presented in pounds sterling and all values are rounded to the nearest million pounds (£ million), except where indicated otherwise.

The Directors have considered the Group's business activities (as set out on page 2), principal risks and uncertainties (as set out on pages 7 to 9), and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

In 2016 the Group reviewed and amended the reporting of individual line items in the consolidated income statement to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the year ended 31 December 2015, revenue previously reported as Other revenue has been reclassified to Passenger revenue and Cargo revenue. Expenditure in respect of certain subcontracted services, previously allocated to Property, IT and other costs, has been reclassified to Handling, catering and other operating costs. Other expenditure reclassifications are not material individually or in aggregate. These reclassifications have not affected reported total revenue, expenditure or operating profit for 2015. Details of these adjustments are provided in the table below.

Consolidated income statement for the year ended 31 December 2015

£ million	Previously reported	Reclassification	After reclassification
Passenger revenue	10,164	74	10,238
Cargo revenue	547	41	588
Other revenue	622	(115)	507
Total revenue	11,333	-	11,333
Employee costs	2,466	(11)	2,455
Handling, catering and other operating costs	1,255	116	1,371
Selling costs	401	14	415
Property, IT and other costs	594	(116)	478
Other expenditure on operations	5,353	(3)	5,350
Total expenditure on operations	10,069	-	10,069
Operating profit	1,264	-	1,264

2 Significant accounting policies continued

Basis of consolidation

The consolidated financial statements include those of the Company and its subsidiaries, each made up to 31 December, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform with the Group's accounting policies. Subsidiaries are all entities (including structured entities) controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intra-group account balances, including intra-group profits, have been eliminated in preparing the consolidated financial statements.

Interests in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

In the Company balance sheet investments in associates are recognised at cost subject to any impairment.

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as sales in advanced of carriage in current liabilities until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance, handling, holiday and commission revenues is recognised at the time the service is provided in accordance with the invoice or contract.

Revenue recognition – customer loyalty programmes

The Group operated two principal loyalty programmes for part of the prior year, BA Executive Club and Avios. These were disposed of outside the BA Group on 28 January 2015 (see note 17 for further information). These principal customer loyalty programmes awarded travellers Avios points to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios points was deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the Avios points were issued.

In addition, Avios points were sold to commercial partners to use in loyalty activities. The fair value of the Avios points sold was deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points were issued. The cost of the redemption of the Avios points was recognised when the Avios points were redeemed.

The Group estimated the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and was reduced to take into account the proportion of award credits that were not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflected the fair value of the range of available awards.

The Group also operates other smaller loyalty programmes for which the fair value of points are deferred as a liability and recognised as revenue on redemption of the points and provision of services to members.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Management Committee. The Management Committee is made up of the Executive Directors and other key management personnel and is responsible for the day-to-day running of the Group and discharging managerial responsibility.

2 Significant accounting policies continued

Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised, but tested annually for impairment. The carrying value of intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

a Goodwill

Where the cost of a business combination exceeds the fair value attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable. For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Any goodwill arising on the acquisition of equity accounted entities is included within the carrying amount of those investments. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the income statement.

b Landing rights

Landing rights acquired from other airlines are capitalised at cost on acquisition (or fair value when acquired through a business combination). Subsequently they are accounted for at cost less any accumulated impairment losses. Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

c Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight line basis generally over a period five years, with certain specific software developments amortised over a period of up to ten years.

d Emissions allowances

Purchased emissions allowances are initially recognised at cost and are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or held on finance leases, are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of seven and 29 years. For engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate. For all other engines, the engine core is depreciated to its residual value over the average remaining life of the related fleet.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

c Property and equipment

Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives, or in the case of leasehold properties over the duration of the leases if shorter, on a straight-line basis. Property, with the exception of freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from four to 20 years.

d Leased assets

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in borrowings. The amount included in the cost of property, plant and equipment is depreciated on the basis

2 Significant accounting policies continued

d Leased assets continued

described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest expense in the income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the assets' carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be achieved within twelve months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value, determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short-dated nature of these assets. A provision for impairment of receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Employee benefits

Employee benefits, including pensions and other post-retirement benefits (principally post-retirement healthcare benefits) are presented in these financial statements in accordance with IAS 19 'Employee Benefits'.

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset to the Group, recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The cost of administering the Group's defined benefit pension plans is provided for when the services are received, whilst the cost of managing the plan investments is treated as part of the return on plan assets.

The fair value of scheme assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within operating expenses in the period in which they arise. Past service costs are recognised at the earlier of the plan amendment or curtailment occurring and when the Group recognises the related restructuring costs or termination benefits. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the income statement. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in the statement of other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

2 Significant accounting policies continued

b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Share-based payments

The Group has a number of equity-settled share-based employee incentive plans in which the Group's employees participate. Prior to the merger with Iberia, the awards were made under schemes operated by the Company and represented rights over its ordinary shares. These awards rolled over into awards in respect of shares in IAG at the merger. The awards are made under schemes operated by IAG and represent rights over its ordinary shares. The cost of these awards is recharged from IAG to the Group and recognised in intercompany payables to IAG.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Foreign currency translation

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies are initially recorded in the functional currency, sterling, by applying the spot exchange rate ruling at the date of the transaction. Monetary foreign currency balances are translated into sterling at the rates ruling at the balance sheet date. All other profits or losses arising on translation are dealt with through the income statement in the period in which they arise, except where hedge accounting is applied (see below under cash flow hedges) and on the translation of foreign operations. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within 'Net currency retranslation charges' in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

The net assets of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into sterling at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the income statement.

Financial instruments

In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent remeasurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period-end, except for those financial instruments measured at fair value through the income statement.

2 Significant accounting policies continued

a Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is insignificant. This category of financial assets includes trade and other receivables.

b Available-for-sale financial assets

Other equity investments (other than interests in associates) classified as available-for-sale financial assets are those that are neither classified as held for trading nor designated at fair value through profit or loss, and are recorded at fair value. Any change in the fair value is reported in equity until the investment is sold, when the cumulative amount recognised in equity is recognised in the income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss previously reported in equity is included in the income statement.

The fair value of quoted investments is determined by reference to published bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost (disclosed in note 27b).

c Derivatives

Derivative financial instruments, comprising foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), are measured at fair value on the Group balance sheet. The treatment of gains and losses arising from revaluation is described below in the accounting policy for cash flow hedges. The gains or losses related to derivatives not used as effective hedging instruments are recognised in the income statement.

d Financial liabilities measured at amortised cost

Long-term borrowings are recorded at amortised cost. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

Cash flow hedges

Changes in the fair value of derivative financial instruments are reported in the income statement unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period are taken to equity. Gains and losses taken to equity are reflected in the income statement when either the hedged cash flow impacts the income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro, Chinese yuan and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in other comprehensive income is included in the income statement.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

Exceptional items

Exceptional items (disclosed in note 5) are those that in management's view need to be disclosed by virtue of their size or incidence.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if

2 Significant accounting policies continued

Critical accounting estimates and judgements continued

these are also affected. The estimates and assumptions that affect the current year or have a significant risk of causing a material adjustment within the next financial year are discussed below.

a Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amount of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

b Pensions and other post-retirement benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. These assumptions are based on each scheme's specific factors and are reviewed by management at the end of each year. Any difference between these assumptions and the actual outcome will impact future net assets and net income. The assumptions as of 31 December 2016 and the sensitivity of these assumptions are set out in note 31.

c Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value, whether it is significant or prolonged, to determine whether it is an impairment that should be recognised in the income statement. The assumptions as of 31 December 2016 are set out in note 27b.

d Investment in associates

The Group owns 13.55 per cent of the equity of IB Opco Holding S.L. ("Iberia") and 86.26 per cent of the equity of Avios Group (AGL) Limited ("AGL"). BA uses the equity method of accounting for its investments in these entities because under IFRS it is considered to have significant influence but not control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. BA has significant influence over Iberia due to its representation on the IAG Management Committee, the management committee of Iberia's ultimate parent company. BA has significant influence over AGL due to representation on the AGL board as provided for by the governance agreement, but not control as BA no longer has the power to direct the activities of AGL.

e Passenger revenue recognition

Passenger revenue is recognised when the transportation service is provided. Ticket sales that are not expected to be used for transportation ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

f Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The assumptions as of 31 December 2016 are set out in note 10.

g Residual values and useful lives of assets

The Group exercises judgement to determine useful lives and residual values of property, plant and equipment, including fleet assets. Useful lives and residual values are reassessed annually taking into consideration the latest fleet plans and other business plan information. The assets are depreciated to their residual values over their estimated useful lives.

h Lease classification

A lease is classified as a finance lease when substantially all the risk and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the legal form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Detail of the Group's operating commitments are disclosed in note 24.

i Engineering and other aircraft costs

The Group has a number of maintenance contracts with service providers to repair or replace engine parts. These agreements are complex and the Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge.

2 Significant accounting policies continued

Impact of new International Financial Reporting Standards

The Group has adopted a number of amendments to accounting standards for the first time in the year to 31 December 2016. None of these amendments has resulted in a significant change to the financial position or performance of the Group, or presentation and disclosures in the Group's financial statements.

3 New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments from their effective date:

IFRS 15 'Revenue from contracts with customers'; effective for periods beginning on or after 1 January 2018. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods or services and at a point when the performance obligations associated with these goods and services have been satisfied. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. This is a converged standard on revenue recognition which replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations.

The Group has initiated a project to identify the revenue streams throughout the Group, and to analyse them using the five-step model. In addition, the Group has worked with other airlines through the International Air Transport Association (IATA) Industry Accounting Working Group to ensure that the proposed approach is consistent with other industry participants. At this stage, the Group expects the following main changes to revenue accounting on adoption of IFRS 15:

- A change in timing of the recognition of certain ancillary revenue, to align with the principal performance obligations associated with the services provided;
- Changes to the gross or net presentation of revenue arising from the review of terms and conditions of certain transactions undertaken by the operating companies where they may be identified as principal or agent.

The Group expects to adopt the standard from 1 January 2018 and is currently considering whether to use the full retrospective application or the cumulative catch-up transition method.

The Group does not expect a significant change to its performance or financial position on adoption of this standard.

IFRS 9 'Financial instruments'; effective for periods beginning on or after 1 January 2018. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting. The Group does not expect that there will be a significant change in the classification and measurement of its financial instruments or in its hedging activities on adoption of this standard.

IFRS 16 'Leases' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group is currently assessing the impact of the new standard. It is expected that both net debt and non-current assets will increase on implementation of this standard as obligations to make future payments under leases currently classified as operating leases are recognised on the balance sheet, along with the related 'right-of-use' asset. Details of the Group's operating lease commitments are disclosed in note 24.

IAS 7 (Amendment) 'Statement of cash flows' (not yet endorsed by the EU); effective for periods beginning on or after 1 January 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendment suggests that one way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The adoption of the amendment will result in additional disclosure requirements for the Group.

There are no other standards, amendments or interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income, net assets or disclosures of the Group.

4 Segment information

a Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management Committee makes resource allocation decisions based on route profitability, which considers aircraft type and route economics, based primarily by reference to passenger economics with limited reference to cargo demand. The objective in making resource allocation decisions is to optimise consolidated financial results. While the operations of certain subsidiaries are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate all segments. The primary financial information reviewed by the Management Committee is based on the consolidated results of the Group. Based on the way the Group manages its operating business, and the manner in which resource allocation decisions are made, the Group has only one reportable segment for financial reporting purposes, being the consolidated results of the Group's airline operations.

b Geographical analysis - by area of original sale

£ million	Group	
	2016	2015
UK	5,674	5,498
USA	2,161	2,165
Rest of the world	3,608	3,670
Revenue	11,443	11,333

The total of non-current assets excluding available-for-sale financial assets, employee benefit assets, other non-current assets and derivative financial instruments located in the UK is £10,750 million (2015: £10,718 million) and the total of these non-current assets located in other countries is £223 million (2015: £162 million).

5 Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. The following items are deemed to be exceptional:

£ million	Group	
	2016	2015
Revision in US past service cost benefits	40	-
Restructuring costs	(124)	-
Settlement of litigation provisions	-	(25)
Exceptional items	(84)	(25)

The exceptional items noted above relate to the following consolidated income statement category:

£ million	Group	
	2016	2015
Employee costs	40	-
Restructuring	(124)	-
Property, IT and other costs	-	(25)
Exceptional items	(84)	(25)

During the period the Group embarked on a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme will principally comprise employee severance costs. The costs incurred in the year ended 31 December 2016 in respect of these projects amount to £124 million, with a related tax credit of £25 million. In addition, during the year the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit pension plan, so any reduction in benefit results in the recognition of a past service gain when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of £40 million for the year ended 31 December 2016, and a related tax charge of £8 million.

6 Expenses by nature

Operating profit is arrived at after charging/(crediting):

Depreciation, amortisation and impairment of non-current assets:

£ million	Group	
	2016	2015
Owned assets	482	514
Finance leased aircraft	206	189
Other leasehold interests	30	32
Impairment charge on property, plant and equipment and intangible assets	12	4
Amortisation of intangible assets	39	22
Depreciation, amortisation and impairment	769	761

Operating lease costs:

£ million	Group	
	2016	2015
Minimum lease rentals - aircraft	159	113
- property and equipment	111	94
Property and equipment sub-lease rentals received	(1)	(18)
Operating lease costs	269	189

Cost of inventories:

£ million	Group	
	2016	2015
Cost of inventories recognised as an expense, mainly fuel	2,167	2,563

7 Auditor's remuneration

£ '000	Group	
	2016	2015
Fees payable to the Group's auditor for the audit of the Group's accounts	1,489	1,514
Fees payable to the Group's auditor and its associates for other services:		
Audit of the Group's subsidiaries pursuant to legislation - UK	170	186
Audit of the Group's subsidiaries pursuant to legislation - Worldwide	119	109
Other services pursuant to legislation	421	269
Other services relating to taxation	6	46
Other assurance services	50	53
Fees payable to the Group's auditor for the audit of the Group's pension schemes	-	15
Other services relating to pension schemes	-	97
	2,255	2,289

The audit fees payable to Ernst & Young LLP are approved by the BA Board having been reviewed in the context of other companies for cost effectiveness. The Board also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.

Remuneration receivable by the Company's auditor for the supply of services to associates of the Group to support the opinion on the group accounts have not been included as these are included within the group audit fee disclosure of the Parent Company.

8 Employee costs and numbers

a Employee costs

The average number of persons employed during the year was as follows:

Number	Group		Company	
	2016	2015	2016	2015
UK	39,444	38,796	37,547	36,989
Overseas	4,430	4,754	3,293	3,723
	43,874	43,550	40,840	40,712

£ million	2016	2015	2016	2015
Wages and salaries	1,579	1,615	1,493	1,544
Social security costs	192	173	180	163
Costs related to pension scheme benefits (note 31)	223	245	217	242
Other employee costs	446	422	429	411
Total employee costs excluding restructuring	2,440	2,455	2,319	2,360
Restructuring	4	27	4	27
Total employee costs	2,444	2,482	2,323	2,387

Included in 'wages and salaries' is a total expense for share-based payments of £10 million (2015: £10 million) that arises from transactions accounted for as equity-settled share-based payment transactions (see note 29). Note 5 shows exceptional items of £84 million which include a £40 million pension credit and restructuring costs including £113 million of severance costs. Including the exceptional items results in total employee costs of £2,517 million (2015: £2,482 million). Other employee costs include allowances and accommodation for crew.

b Directors' emoluments

£ million	Group	
	2016	2015
Directors' remuneration	4	5

During the year, four Directors (2015: two) of the Company were employed and remunerated by IAG.

The aggregate emoluments for the highest paid Director were borne by IAG. The highest paid Director's aggregate emoluments for the year amounted to £830,000 (2015: £871,000) and contributions to the Company's defined benefit scheme amounted to £nil (2015: £nil). The value of the accrued benefits in respect of his pension scheme at 31 December 2016 amounted to £nil (2015: £3,773,000). The highest paid director participated in IAG's Long Term Incentive Schemes but exercised no awards during the year.

During the year no Directors (2015: none) accrued benefits under a defined benefit pension scheme and one Director (2015: two) accrued benefits under a defined contribution pension scheme. Pension contributions for the year totalled less than £1 million which are included in the table above. Eight Directors (2015: six) participated in IAG's Long Term Incentive Schemes and seven exercised awards during the year (2015: six). The aggregate compensation paid to past directors in respect of loss of office during the year amounted to £357,000 (2015: £nil).

c Remuneration of key management personnel

Compensation of key management personnel (which includes the Directors and Leadership Team of the Group):

£ million	Group and Company	
	2016	2015
Short-term employee benefits	8	8
Share-based payments	4	3
Other benefits ¹	1	-
At 31 December	13	11

¹ Other benefits relate to post-employment benefits of £482,000 and termination benefits of £464,000 (2015: post-employment benefits of £342,000)

9 Finance costs and income

a Finance costs

£ million	Group	
	2016	2015
On bank loans	(19)	(16)
On finance leases	(97)	(92)
On other loans	(31)	(39)
Interest expense	(147)	(147)
Unwinding of discounting on provisions (note 25)	1	(2)
Capitalised interest ¹	2	1
Change in fair value of cross currency swaps	(1)	1
Finance costs	(145)	(147)

¹ Interest costs on progress payments are capitalised at a rate based on the London Interbank Offered Rate (LIBOR) plus the rate specific to the borrowings.

b Finance income

£ million	Group	
	2016	2015
Interest on other investments and interest-bearing deposits (financial assets not at fair value through the income statement)	22	24

10 Tax

a Tax on ordinary activities

Tax charge in the income statement, other comprehensive income and statement of changes in equity.

For the year ended 31 December 2016

£ million	Income statement	Other comprehensive income	Statement of changes in equity	Group	
				Total	
Current income tax					
Movement in respect of prior years	8	-	-		8
Movement in respect of current year	(225)	112	2		(111)
Total current income tax	(217)	112	2		(103)
Deferred tax					
Movement in respect of prior years	(11)	-	-		(11)
Movement in respect of current year	(30)	261	(2)		229
Rate change	37	(35)	-		2
Total deferred tax	(4)	226	(2)		220
Total tax	(221)	338	-		117

The tax charge on continuing operations for 2016 includes £17 million in relation to exceptional items (see note 5). Current tax in other comprehensive income all relates to employee benefit plans and current tax in statement of changes in equity all relates to share-based payments.

10 Tax continued

a Tax on ordinary activities continued

For the year ended 31 December 2015

£ million	Group			Total
	Income statement	Other comprehensive income	Statement of changes in equity	
Current income tax				
Movement in respect of prior years	(5)	-	-	(5)
Movement in respect of current year	(191)	55	5	(131)
Total current income tax	(196)	55	5	(136)
Deferred tax				
Movement in respect of prior years	13	-	-	13
Movement in respect of current year	4	(134)	(2)	(132)
Rate change	59	-	-	59
Total deferred tax	76	(134)	(2)	(60)
Total tax	(120)	(79)	3	(196)

Current tax in other comprehensive income all relates to employee benefit plans and current tax in statement of changes in equity all relates to share-based payments.

b Current and deferred tax

Current tax account

£ million

Current tax asset/(liability)	Opening balance	Movement in respect of prior years	Movement in respect of current year	Cash paid	Other movements	Closing balance
For the year ended 31 December 2016	(69)	8	(111)	104	4	(64)
For the year ended 31 December 2015	(36)	(5)	(131)	100	3	(69)

£46 million of the current tax liability relates to the Company (2015: £29 million).

Deferred tax account

£ million

Deferred tax asset/(liability)	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
For the year ended 31 December 2016	(282)	(11)	229	2	(62)
For the year ended 31 December 2015	(222)	13	(132)	59	(282)

Within the net deferred tax liability balance above, there is a deferred tax asset of £29 million relating to the Company (2015: £193 million deferred tax liability).

10 Tax continued

b Current and deferred tax continued

Detailed deferred tax

For the year ended 31 December 2016

£ million

	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
Property, plant and equipment	(619)	7	(8)	39	(581)
Employee leaving indemnities and other employee related provisions	-	5	13	(1)	17
Tax losses carried forward	68	(8)	(24)	(1)	35
Fair value losses recognised on cash flow hedges	123	-	(21)	(11)	91
Foreign currency translations	5	(4)	5	-	6
Employee benefit plans	107	-	276	(24)	359
Share-based payment schemes	7	-	(3)	-	4
Other provisions	13	(11)	(1)	-	1
Hedge ineffectiveness on open fuel contracts	14	-	(8)	-	6
As at 31 December	(282)	(11)	229	2	(62)

In 2016 the effect of tax rate changes on items that will not be reclassified to the income statement was £24 million (2015: nil) and the effect on items that may be reclassified to the income statement was £11 million (2015: nil).

For the year ended 31 December 2015

£ million

	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Closing balance
Property, plant and equipment	(665)	4	(15)	57	(619)
Tax losses carried forward	66	9	(7)	-	68
Fair value losses recognised on cash flow hedges	159	-	(36)	-	123
Foreign currency translations	(6)	3	8	-	5
Employee benefit plans	195	-	(90)	2	107
Share-based payment schemes	9	-	(2)	-	7
Other provisions	19	(3)	(3)	-	13
Hedge ineffectiveness on open fuel contracts	1	-	13	-	14
As at 31 December	(222)	13	(132)	59	(282)

10 Tax continued

b Current and deferred tax continued

Detailed deferred tax movement in respect of current year in the income statement, other comprehensive income and statement of changes in equity

For the year ended 31 December 2016

£ million				Group
	Income statement	Other comprehensive income	Statement of changes in equity	Total
Property, plant and equipment	(8)	-	-	(8)
Employee leaving indemnities and other employee related provisions	13	-	-	13
Tax losses carried forward	(24)	-	-	(24)
Fair value losses recognised on cash flow hedges	-	(21)	-	(21)
Foreign currency translations	5	-	-	5
Employee benefit plans	(6)	282	-	276
Share-based payment schemes	(1)	-	(2)	(3)
Other provisions	(1)	-	-	(1)
Hedge ineffectiveness on open fuel contracts	(8)	-	-	(8)
Total tax	(30)	261	(2)	229

A tax charge of £21 million (2015: £42 million) relates to tax in other comprehensive income recycling to the income statement and a tax credit of £282 million (2015: £92 million charge) relates to tax in other comprehensive income that will not recycle to the income statement.

For the year ended 31 December 2015

£ million				Group
	Income statement	Other comprehensive income	Statement of changes in equity	Total
Property, plant and equipment	(14)	-	-	(14)
Tax losses carried forward	(7)	-	-	(7)
Fair value losses recognised on cash flow hedges	10	(46)	-	(36)
Foreign currency translations	3	4	-	7
Employee benefit plans	3	(92)	-	(89)
Share-based payment schemes	-	-	(2)	(2)
Other provisions	(4)	-	-	(4)
Hedge ineffectiveness on open fuel contracts	13	-	-	13
Total tax	4	(134)	(2)	(132)

10 Tax continued

c Reconciliation of the total tax charge/(credit) in the income statement

In accordance with bilateral tax treaties the Group's profits are mainly taxed in the UK. Therefore, the tax charge/(credit) is calculated at the standard rate of UK corporation tax. The tax charge on the profit for the year to 31 December 2016 and 2015 is lower than the expected tax charge at the UK rate. The Group's effective tax rate is 14.1% (2015: 4.6%) and the differences to the UK rate are explained below:

£ million	Group	
	2016	2015
Accounting profit before tax	1,566	2,628
Tax calculated at the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	313	532
Effects of:		
Non-deductible expenses - non-recurring items	5	-
Non-deductible expenses - recurring items	4	9
Non-taxable income	(7)	-
Employee benefit plan accounting under IFRIC 14	(5)	(6)
Euro preferred securities accounted for as non-controlling interests	(10)	(3)
Current year tax losses not recognised	3	1
Adjustments in respect of prior years	3	(8)
Tax rate changes	(37)	(59)
Non-taxable dividends	-	(1)
Tax on associates' profits	(29)	(30)
Tax incentives	(5)	(4)
Gain on disposal of AGL	(14)	(31)
Tax charge in the income statement	221	120

d Other taxes

The Group also made payments of other taxes and charges in 2016 as follows:

£ million	Group	
	2016	2015
Payroll related taxes	192	173
UK Air Passenger Duty	652	649
Other ticket taxes and charges	397	385
	1,241	1,207

e Factors that may affect future tax charges

Unrecognised temporary differences - losses

£ million	Group	
	2016	2015
UK capital losses arising before the change in ownership of the UK Group in 2011	29	74
UK capital losses arising after the change in ownership of the UK Group in 2011	7	7
UK capital losses arising on properties that were eligible for Industrial Buildings Allowances	250	250
Corporate income tax losses outside of the countries of main operation	143	112

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of £877 million (2015: £971 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

10 Tax continued

e Factors that may affect future tax charges continued

Tax rate changes

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax on temporary differences and tax losses as at 31 December 2016 has been calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

f Contingent tax liabilities

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

11 Dividends

£ million	Company	
	2016	2015
First interim dividend for 2016:		
A1 Ordinary shares: £305.95 per share (2015: £208.92)	275	187
A2 Ordinary shares: £305.95 per share (2015: £208.92)	30	21
B Ordinary shares: Nil per share (2015: £1) ¹	-	1
C Ordinary shares: £305.95 per share (2015: £208.92)	45	31
Second interim dividend for 2016:		
A1 Ordinary shares: Nil per share (2015: £17.48)	-	16
A2 Ordinary shares: Nil per share (2015: £17.48)	-	2
C Ordinary shares: Nil per share (2015: £17.48)	-	2
	350	260

¹ There are no longer dividend rights attached to the B Shares. 2015: Dividends declared in respect of the B class ordinary shares remained payable at 31 December 2015.

12 Property, plant and equipment

a Group

£ million	Group			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2015	14,821	1,560	893	17,274
Additions	920	38	48	1,006
Disposals	(735)	(1)	(29)	(765)
Reclassifications	(134)	-	-	(134)
Balance as at 31 December 2015	14,872	1,597	912	17,381
Exchange adjustment	1	-	1	2
Additions	1,625	22	31	1,678
Disposals	(1,943)	(4)	(11)	(1,958)
Reclassification to intangible assets	-	-	(16)	(16)
As at 31 December 2016	14,555	1,615	917	17,087
Depreciation and impairment				
Balance at 1 January 2015	7,891	752	641	9,284
Charge for the year	654	43	38	735
Disposals	(666)	-	(19)	(685)
Reclassifications	(73)	-	-	(73)
Balance as at 31 December 2015	7,806	795	660	9,261
Charge for the year	639	40	39	718
Disposals	(995)	(4)	(9)	(1,008)
Reclassification to intangible assets	-	-	(8)	(8)
As at 31 December 2016	7,450	831	682	8,963
Net book amounts				
31 December 2016	7,105	784	235	8,124
31 December 2015	7,066	802	252	8,120
Analysis as at 31 December 2016				
Owned	2,828	751	181	3,760
Finance leased	3,946	-	5	3,951
Progress payments	254	33	49	336
Assets not in current use	77	-	-	77
	7,105	784	235	8,124
Analysis as at 31 December 2015				
Owned	3,066	768	183	4,017
Finance leased	3,853	-	6	3,859
Progress payments	147	34	63	244
	7,066	802	252	8,120

£ million	Group		
	2016	2015	
The net book amount of property comprises:			
Freehold		239	249
Long-leasehold improvements		279	282
Short-leasehold improvements ¹		266	271
As at 31 December		784	802

¹ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2016, bank and other loans of the Group are secured on fleet assets with a net book amount of £567 million (2015: £654 million).

12 Property, plant and equipment continued

b Company

£ million	Company			
	Fleet	Property	Equipment	Total
Cost				
Balance at 1 January 2015	14,243	1,472	836	16,551
Additions	920	37	44	1,001
Disposals	(735)	(1)	(6)	(742)
Reclassifications	(134)	-	-	(134)
Balance as at 31 December 2015	14,294	1,508	874	16,676
Additions	1,635	22	29	1,686
Disposals	(1,980)	-	(9)	(1,989)
As at 31 December 2016	13,949	1,530	894	16,373
Depreciation and impairment				
Balance at 1 January 2015	7,597	703	605	8,905
Charge for the year	623	40	36	699
Disposals	(666)	-	(6)	(672)
Reclassifications	(73)	-	-	(73)
Balance as at 31 December 2015	7,481	743	635	8,859
Charge for the year	636	39	38	713
Disposals	(1,034)	-	(8)	(1,042)
As at 31 December 2016	7,083	782	665	8,530
Net book amounts				
31 December 2016	6,866	748	229	7,843
31 December 2015	6,813	765	239	7,817
Analysis as at 31 December 2016				
Owned	2,599	715	175	3,489
Finance leased	3,936	-	5	3,941
Progress payments	254	33	49	336
Assets not in current use	77	-	-	77
	6,866	748	229	7,843
Analysis as at 31 December 2015				
Owned	2,824	731	170	3,725
Finance leased	3,842	-	6	3,848
Progress payments	147	34	63	244
	6,813	765	239	7,817

£ million	Company	
	2016	2015
The net book amount of property comprises:		
Freehold	203	211
Long-leasehold improvements	279	282
Short-leasehold improvements ¹	266	272
As at 31 December	748	765

¹ Short-leasehold improvements relate to leasehold interests with a duration of less than 50 years.

At 31 December 2016, bank and other loans of the Company are secured on fleet assets with a net book amount of £427 million (2015: £482 million).

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £6,025 million for the Group (2015: £6,458 million) and £6,022 million for the Company (2015: £6,454 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £6,000 million for the acquisition of 18 Airbus A350s (from 2019 to 2022), 18 Boeing 787s (from 2017 to 2021), 25 Airbus A320s (from 2018 to 2022), and ten Airbus A321s (from 2018 to 2019).

14 Non-current assets held for sale

There are no non-current assets held for sale as at 31 December 2016 (2015: £4 million). Assets held for sale in the Group and the Company as at 31 December 2015 were sold in the year. These were held at cost less accumulated depreciation and impairment. Total impairment charges recognised in the income statement relating to those assets during the year was £nil (2015: £4 million).

At 31 December 2015, the non-current assets held for sale of £4 million in the Group and the Company consisted of three Boeing 737-400 airframes and nine Boeing 737-400 engines.

15 Intangible assets

a Group

£ million					Group
	Goodwill	Landing rights	Emissions allowances	Software	Total
Cost					
Balance at 1 January 2015	40	727	26	392	1,185
Additions	-	-	-	77	77
Disposals	-	-	(20)	(7)	(27)
Exchange differences	-	(3)	-	-	(3)
Balance as at 31 December 2015	40	724	6	462	1,232
Additions	-	-	4	54	58
Disposals	-	-	(7)	-	(7)
Reclassification from property, plant and equipment	-	-	-	16	16
Exchange differences	-	5	-	-	5
As at 31 December 2016	40	729	3	532	1,304
Amortisation					
Balance at 1 January 2015	-	60	-	176	236
Charge for the year ¹	-	-	-	22	22
Exchange differences	-	-	-	(6)	(6)
Disposals	-	(1)	-	-	(1)
Balance as at 31 December 2015	-	59	-	192	251
Charge for the year ¹	-	-	-	39	39
Reclassification from property, plant and equipment	-	-	-	8	8
Impairment	-	12	-	-	12
Exchange differences	-	2	-	-	2
As at 31 December 2016	-	73	-	239	312
Net book amounts					
31 December 2016	40	656	3	293	992
31 December 2015	40	665	6	270	981

¹ Amortisation on non-EU based landing rights was less than £1 million for the period.

15 Intangible assets continued

b Company

£ million	Company			
	Landing rights	Emissions allowances	Software	Total
Cost				
Balance at 1 January 2015	692	26	391	1,109
Additions	-	-	77	77
Disposals	-	(20)	(7)	(27)
Balance as at 31 December 2015	692	6	461	1,159
Additions	-	4	51	55
Disposals	-	(7)	-	(7)
As at 31 December 2016	692	3	512	1,207
Amortisation				
Balance at 1 January 2015	49	-	175	224
Charge for the year ¹	-	-	22	22
Disposals	-	-	(6)	(6)
Balance as at 31 December 2015	49	-	191	240
Charge for the year	-	-	37	37
As at 31 December 2016	49	-	228	277
Net book amounts				
31 December 2016	643	3	284	930
31 December 2015	643	6	270	919

¹ Amortisation on non-EU based landing rights was less than £1 million for the period.

16 Impairment of property, plant, equipment and intangible assets

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Goodwill and landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. On this basis, an impairment review has been conducted on two CGUs. An impairment review was performed on the network airline operations CGU, including passenger and cargo operations out of all operated airports, as well as all related ancillary operations as it contains both goodwill and landing rights within the EU. A separate impairment review has been conducted on the operations of the OpenSkies CGU as it contains landing rights within the EU.

An impairment review involves the comparison of the carrying value of the CGU to the recoverable amount. An impairment charge is recognised to the extent that the carrying value exceeds the recoverable amount.

a Network airline operations

£ million	2016				2015			
	Emissions allowances	Landing rights	Goodwill	Total	Emissions allowances	Landing rights	Goodwill	Total
Network airline operations	3	646	40	689	6	646	40	692

The recoverable amount of the network airline operations has been measured based on its value in use, using a discounted cash flow model. Cash flow projections are based on the business plan approved by the Board covering a five-year period. Cash flows for the five-year period are projected to increase in line with the long-term growth rate of the main economies in which BA operates. The pre-tax discount rate applied to the cash flow projections is derived from the Group's post-tax weighted average cost of capital, adjusted for the risks specific to the assets.

No impairment charge has arisen as a result of the review performed on the network airline operations. No reasonable possible change in the key assumptions for the network airline operation would cause the carrying amount of goodwill and intangible assets with indefinite economic life to exceed the recoverable amount.

16 Impairment of property, plant, equipment and intangible assets continued

a Network airline operations continued

Key assumptions

	2016	2015
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	8.5%	8.6%
Long-term growth rate	2.5%	2.5%

b OpenSkies

£ million	2016		2015	
	Landing rights	Total	Landing rights	Total
Carrying value of OpenSkies' intangible assets ¹	10	10	19	19

¹ Included within total intangible assets allocated to the OpenSkies CGU are £7 million (2015: £16 million) of landing rights with an indefinite life.

In 2016, the Group recognised an impairment charge of £12 million (2015: no impairment) in respect of landing rights associated with the OpenSkies operation. The impairment has arisen as a result of changes in Business plan assumptions. The recoverable amount of the OpenSkies CGU has been measured based on its value in use, using a discounted cash flow model. Cash flows for the next five years have been projected in line with expected growth using the latest forecast approved by the Board. This includes consideration of historic and future growth in the countries that OpenSkies operates. Cash flows for the five-year period are projected to increase in line with the long-term growth rate of the main economies in which OpenSkies operates. The pre-tax discount rate applied to the cash flow projections is derived from OpenSkies' post-tax weighted average cost of capital, adjusted for tax and the risks specific to the assets.

At 31 December 2016 the carrying value of OpenSkies was £10 million, representing its value-in-use.

Key assumptions

	2016	2015
Pre-tax discount rate (derived from the long-term weighted average cost of capital)	9.4%	9.4%
Long-term growth rate	1.7%	1.7%

The operating margins of both CGUs are based on the estimated effects of planned business efficiency and business change programmes, approved and enacted at the balance sheet date. The trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business.

c Impairment of fleet

During the year ended 31 December 2016 no impairment charge was recognised (2015: £4 million charge).

17 Investments

a Group

Investment in associates

£ million	Group	
	2016	2015
Balance at 1 January	1,775	76
Additions	-	1,569
Exchange differences	20	(6)
Share of attributable results	147	149
Share of movements on other reserves	20	(1)
Dividends received	(105)	(12)
As at 31 December	1,857	1,775

	Percentage of equity owned	Measurement basis	Principal activities	Holding	Country of incorporation and principal operations
IB Opco Holding S.L. (Iberia) ¹	13.55	Equity method	Airline operations	Ordinary shares	Spain
Avios Group (AGL) Limited (AGL)	86.26	Equity method	Airline marketing	Ordinary shares	England

¹ Held by a subsidiary company

The following summarised financial information of the Group's investment in associates is shown below:

£ million	Group	
	2016	2015
Non-current assets	2,800	2,498
Current assets	3,490	2,890
Current liabilities	(2,989)	(2,802)
Non-current liabilities	(1,897)	(1,642)
Net equity	1,404	944
Group's carrying amount of the investment	1,850	1,768
Goodwill attributable to investments in associates	7	7
Total investment in associates	1,857	1,775
Revenues	4,461	4,028
Operating costs	(4,072)	(3,735)
Other income and costs (including tax)	(52)	256
Net profit after tax	337	549
Other comprehensive income/(expense)	145	(9)
Total comprehensive income for the year (net of tax)	482	540

While the Group holds less than 20 per cent of the issued share capital of Iberia, it accounts for its investment in Iberia as an associate as it has the ability to exercise significant influence over the investment due to its voting power (both through its equity holding and its representation on key decision-making committees) and the nature of its commercial relationships with Iberia.

On 28 January 2015, BA entered into a business transfer agreement with its wholly-owned subsidiary Avios Group (AGL) Limited ("AGL"). This transferred certain parts of the BA Executive Club business, relating to the frequent flyer programme, to AGL in return for additional shares in the amount of 1.6 billion fully paid up Class A Shares in AGL.

17 Investments continued

a Group continued

Following the restructure, BA's shareholding has reduced from 100 per cent of the existing AGL business to 86 per cent of the larger combined customer loyalty business, whilst retaining the economic benefit of ownership through dividend distribution. As a result BA no longer has the power to affect the returns of AGL as it now falls within the governance structure of IAG.

From 28 January 2015, AGL was derecognised as a subsidiary of BA and recognised as an associate at the fair value of the retained interest. On initial recognition the investment in AGL was measured at £1.6 billion with a gain measured on loss of control of a subsidiary of £1.5 billion. The investment value recognised on 28 January 2015 was determined by an independent third party's assessment of the value of the new larger AGL loyalty business. The gain is not considered to be distributable as consideration was received in the form of shares. An additional gain on loss of control of a subsidiary of £70 million has been recognised in the current period following an adjustment to the net assets that were disposed.

b Company

A summary of the Company's investments in subsidiaries is set out below:

£ million	Cost	Provisions	Company	
			Total 2016	Total 2015
Balance at 1 January	2,185	(870)	1,315	1,326
Exchange differences	-	-	-	(11)
Additions	8	-	8	7
Disposals ¹	(284)	284	-	-
Provision	-	(8)	(8)	(7)
As at 31 December	1,909	(594)	1,315	1,315

¹ BA de-recognised an investment in a subsidiary during the year following liquidation. The net carrying value of the investment at the date of liquidation was less than £1 million.

The Group and Company's investments in subsidiaries, associates and other investments are listed on pages 75 and 76.

A summary of the Company's investments in associates is set out below:

£ million	Company	
	Total 2016	Total 2015
As at 31 December	1,563	1,563

18 Available-for-sale financial assets

£ million	Group		Company	
	2016	2015	2016	2015
Listed securities				
Comair Limited	13	7	-	-
Unlisted securities (see note 27b)	40	40	40	40
Available-for-sale financial assets	53	47	40	40

19 Trade receivables and other assets

Other non-current assets are set out below:

£ million	Group		Company	
	2016	2015	2016	2015
Prepayments and accrued income ¹	135	14	116	-
Other debtors	59	63	58	52
Amounts owed by parent	253	263	253	263
Amounts owed by subsidiaries	-	-	99	126
Other non-current assets	447	340	526	441

¹ Prepayments and accrued income includes advanced payments on engine maintenance contracts.

Trade receivables and other current assets are set out below:

£ million	Group		Company	
	2016	2015	2016	2015
Trade receivables	726	556	710	542
Provision for doubtful receivables	(16)	(15)	(17)	(15)
Net trade receivables	710	541	693	527
Prepayments and accrued income	443	454	321	339
Other debtors	100	131	100	132
Amounts owed by parent	51	29	51	29
Amounts owed by subsidiaries	-	-	311	260
Trade receivables and other current assets	1,304	1,155	1,476	1,287

The ageing analysis of trade receivables is as follows:

£ million	Group		Company	
	2016	2015	2016	2015
Neither past due nor impaired	567	492	551	478
Past due but not impaired:				
< 30 days	80	25	80	25
30 - 60 days	32	12	31	12
> 60 days	31	12	31	12
Net trade receivables	710	541	693	527

Trade receivables are generally non-interest-bearing and on 30 day terms.

20 Cash, cash equivalents and other current interest-bearing deposits

a Cash and cash equivalents

£ million	Group		Company	
	2016	2015	2016	2015
Cash at bank and in hand	950	848	883	790
Short-term deposits falling due within three months	120	-	120	-
Cash and cash equivalents	1,070	848	1,003	790
Other current interest-bearing deposits maturing after three months	1,425	1,199	1,425	1,199

Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates. The fair value of cash and cash equivalents is £1,070 million for the Group (2015: £848 million) and £1,003 million for the Company (2015: £790 million).

At 31 December 2016, the Group and Company had no outstanding bank overdrafts (2015: £nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within twelve months and earn interest based on the market rates available at the time the deposit was made.

b Reconciliation of net cash flow to movement in net debt

£ million	Group		Company	
	2016	2015	2016	2015
Increase in cash and cash equivalents from continuing operations	234	175		
Increase/(decrease) in other current interest-bearing deposits	227	(650)		
Net cash outflow from decrease in debt and lease financing	824	592		
New loans and finance leases taken out and hire purchase arrangements made	(729)	(488)		
Increase in net debt resulting from cash flow	556	(371)		
Exchange differences and other non-cash movements	(749)	(66)		
Increase in net debt during the year	(193)	(437)		
Net debt at 1 January	(2,463)	(2,026)		
Net debt as at 31 December	(2,656)	(2,463)		

Net debt is calculated as total cash and cash equivalents and current interest bearing deposits less total interest bearing borrowings.

21 Trade and other payables

£ million	Group		Company	
	2016	2015	2016	2015
Trade creditors	1,126	971	1,049	922
Amounts owed to subsidiary companies	-	-	556	1,541
Other creditors	496	512	492	507
Other taxation and social security	31	33	31	32
Dividends payable	-	1	-	1
Sales in advance of carriage	2,564	2,503	2,474	2,390
Accruals and deferred income	119	177	110	166
As at 31 December	4,336	4,197	4,712	5,559

22 Other non-current liabilities

£ million	Group		Company	
	2016	2015	2016	2015
Accruals and deferred income	61	62	38	36
As at 31 December	61	62	38	36

23 Long-term borrowings

£ million	Group		Company	
	2016	2015	2016	2015
a Current				
Bank and other loans ¹	121	396	80	327
Finance leases ²	559	332	582	353
Loans from subsidiaries	-	-	27	26
As at 31 December	680	728	689	706
b Non-current				
Bank and other loans ¹	431	480	295	325
Finance leases ²	4,039	3,302	4,075	3,361
Loans from subsidiaries	-	-	375	334
As at 31 December	4,470	3,782	4,745	4,020

¹ Bank and other loans are repayable up to 2027. Bank and other loans of the Group amounting to £515 million (2015: £592 million) and bank loans of the Company amounting to £338 million (2015: £368 million) are secured on aircraft. Finance leases are all secured on aircraft or other property, plant and equipment.

² Included in finance leases for the Company is £63 million (2015: £86 million) of finance leases with subsidiaries of the Group, of which £26 million (2015: £24 million) is classified as current.

c Bank and other loans

£ million	Group		Company	
	2016	2015	2016	2015
£250 million fixed rate 8.75 per cent eurobonds 2016 (i)	-	250	-	250
Floating rate sterling mortgage loans secured on aircraft (ii)	45	40	-	17
Floating rate US dollar mortgage loans secured on aircraft (iii)	10	38	10	38
Fixed rate sterling mortgage loans secured on aircraft (iv)	-	74	-	-
Floating rate euro mortgage loan secured on aircraft (v)	255	239	255	239
Fixed rate Chinese yuan mortgage loans secured on aircraft (vi)	73	74	73	74
Fixed rate US dollar mortgage loan secured on aircraft (vii)	132	127	-	-
European Investment Bank sterling loans secured on property (viii)	2	5	2	5
Fixed rate unsecured US dollar mortgage loan (ix)	35	29	35	29
	552	876	375	652
Less: current instalments due on bank and other loans	121	396	80	327
Non-current bank and other loans as at 31 December	431	480	295	325

(i) £250 million fixed rate 8.75 per cent unsecured eurobonds that were repaid on 23 August 2016.

(ii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bears interest of 1.10 per cent. The loans are repayable between 2018 and 2019.

(iii) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bears interest of 3.66 per cent. The loans are repayable in 2017.

(iv) Fixed rate sterling mortgage loans that were converted into floating rate sterling mortgage loans during the year. These loans are now within (ii) above.

(v) Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.29 per cent and 1.50 per cent. The loans are repayable between 2024 and 2027.

(vi) Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.

(vii) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear interest of between 3.81 per cent and 4.76 per cent and are repayable between 2021 and 2026.

(viii) European Investment Bank sterling loan is secured on certain property assets of the Group and bears interest of 0.5 per cent. The loan is repayable in 2017.

(ix) Fixed rate US dollar fixed term loan is unsecured. This loan bears interest of 4.22 per cent and is repayable in 2017.

23 Long-term borrowings continued

d Total loans and finance leases

£ million	Group		Company	
	2016	2015	2016	2015
Loans:				
Bank:				
US dollar	\$219	\$246	\$56	\$57
euro	€303	€328	€303	€328
Chinese yuan	¥623	¥716	¥623	¥716
Sterling	£47	£119	£2	£21
	552	626	375	402
Fixed rate bonds:				
Sterling	-	£250	-	£250
	-	250	-	250
Loans from subsidiary undertakings:				
US dollar	-	-	\$184	209
euro	-	-	€300	€300
	-	-	402	360
Finance leases:				
US dollar	\$2,607	\$2,802	\$2,601	\$2,794
euro	€1,807	€1,170	€1,807	€1,170
Japanese yen	¥63,614	¥44,599	¥63,614	¥44,599
Sterling	£527	£656	£590	£742
	4,598	3,634	4,657	3,714
As at 31 December	5,150	4,510	5,434	4,726

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. The majority of these leases have both renewal options and purchase options exercisable at the option of the Group. Future minimum lease payments under finance lease contracts are as follows:

£ million	Group		Company	
	2016	2015	2016	2015
Future minimum payments due:				
Within one year	649	415	674	440
After more than one year but within five years	2,255	1,839	2,293	1,903
In five years or more	2,226	1,810	2,226	1,810
	5,130	4,064	5,193	4,153
Less: finance charges	532	430	536	439
Present value of minimum lease payments	4,598	3,634	4,657	3,714
The present value of minimum lease payments is analysed as follows:				
Within one year	559	332	582	353
After more than one year but within five years	1,956	1,611	1,992	1,670
In five years or more	2,083	1,691	2,083	1,691
As at 31 December	4,598	3,634	4,657	3,714

24 Operating lease commitments

The Group has entered into commercial leases on certain properties and aircraft. These leases have durations ranging from five years for aircraft to 129 years for ground leases. Certain leases contain options for renewal.

The aggregate payments for which there are commitments under operating leases fall due as follows:

a Fleet

£ million	Group		Company	
	2016	2015	2016	2015
Within one year	241	127	212	98
Between one and five years	824	402	791	361
Over five years	579	116	579	116
As at 31 December	1,644	645	1,582	575

b Property

£ million	Group		Company	
	2016	2015	2016	2015
Within one year	64	76	62	74
Between one and five years	131	228	124	221
Over five years	1,717	1,774	1,709	1,764
As at 31 December	1,912	2,078	1,895	2,059

c Equipment

£ million	Group		Company	
	2016	2015	2016	2015
Within one year	3	1	-	1
Between one and five years	7	1	1	1
As at 31 December	10	2	1	2

d Sub-leasing

The Group and Company sub-lease surplus rental properties and aircraft assets held under non-cancellable operating leases to third parties. These leases have remaining terms of one to 21 years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

£ million	Group		Company	
	2016	2015	2016	2015
Within one year	3	3	3	3
Between one and five years	3	3	3	3
Over five years	-	2	-	2
As at 31 December	6	8	6	8

25 Provisions for liabilities

Group					
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2016					
Current	23	26	80	29	158
Non-current	219	-	1	13	233
	242	26	81	42	391
Arising during the year	44	136	4	69	253
Utilised	(5)	(59)	(2)	(75)	(141)
Release of unused amounts	(8)	(9)	-	(3)	(20)
Exchange differences	44	-	12	3	59
Unwinding of discount	1	-	-	-	1
As at 31 December 2016	318	94	95	36	543
Analysis:					
Current	26	94	92	24	236
Non-current	292	-	3	12	307
	318	94	95	36	543

Company					
£ million	Restoration and handback	Restructuring	Legal claims	Other	Total
Balance at 1 January 2016					
Current	2	26	80	19	127
Non-current	144	-	1	11	156
	146	26	81	30	283
Arising during the year	32	136	4	66	238
Utilised	(1)	(59)	(2)	(68)	(130)
Release of unused amounts	(4)	(9)	-	(2)	(15)
Transfer from subsidiary companies	23	-	-	-	23
Exchange differences	28	-	11	2	41
Unwinding of discount	1	-	-	-	1
As at 31 December 2016	225	94	94	28	441
Analysis:					
Current	1	94	92	17	204
Non-current	224	-	2	11	237
	225	94	94	28	441

Restoration and handback costs include provision for the costs to meet the contractual return conditions on aircraft held under operating leases. The provision also includes amounts relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised. The provisions relate to leases up to 2028.

Restructuring provisions represents the estimated costs of settling employee obligations under the Group's restructuring plans (see note 5). The costs related to this provision are expected to be incurred in the next two years.

The Group is subject to investigations into cargo and/or passenger fuel surcharges and related litigation in various jurisdictions. Following an appeal to the General Court of the European Union, the 2010 European Commission decision on alleged cartel activity was partially annulled and the £75 million (€104 million) fine was refunded in full in February 2016. At 31 December 2016, the Group continues to hold a litigation provision for £88 million (€104 million), as it is not possible to predict the outcome of the proceedings. The final amount required to pay the remaining claims and fines is subject to uncertainty and is outlined further in note 32.

Other provisions include: compensation due to customers whose flights were significantly delayed, unless the airline can prove that the delay was caused by circumstances beyond its control; a provision for the EU Emissions Trading Scheme that represents the excess of BA's CO₂ emitted on a flight within the EU in excess of the EU Emission Allowances granted; and provisions relating to unfavourable contracts.

26 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

IAG Treasury carries out financial risk management under governance approved by the IAG Board, IAG Management Committee and the BA Chief Financial Officer. IAG Treasury identifies, evaluates and hedges financial risks. The IAG Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price. The current Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of fuel consumption for the next eight quarters, within certain defined limits. In addition, the Group has additional flexibility to hedge a proportion of fuel consumption up to quarter twelve.

Within the strategy, the Fuel Risk Management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

Group and Company					
2016			2015		
Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million	Increase/(decrease) in fuel price per cent	Effect on profit before tax £ million	Effect on equity £ million
	Increase/(decrease)	Increase/(decrease)		Increase/(decrease)	Increase/(decrease)
30 (30)	25 (40)	486 (403)	30 (30)	50 (36)	306 (358)

26 Financial risk management objectives and policies continued

b Foreign currency risk

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than sterling. The currencies in which these transactions are primarily denominated are US dollar, euro, Japanese yen and Chinese yuan. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, fuel purchases and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of US dollar exposure, within certain defined limits. Foreign exchange forwards and options are used to implement the strategy.

The Group utilises its US dollar, euro, yen and yuan debt repayments as a hedge of future US dollar, euro, yen and yuan revenues.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the exchange rates, with all other variables held constant, on profit before tax and equity. These represent both the Group and the Company as the majority of the foreign currency risks are borne by the Company.

Group	Strengthening/(weakening) in US dollar rate	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/(weakening) in euro rate	Effect on profit before tax £ million	Effect on equity £ million
	per cent			per cent		
	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)
2016	10 (10)	18 (18)	(105) 126	10 (10)	33 (33)	(218) 219
2015	10 (10)	- -	(162) 160	10 (10)	32 (32)	(135) 135

Group	Strengthening/ (weakening) in yen rate	Effect on profit before tax £ million	Effect on equity £ million	Strengthening/ (weakening) in yuan rate	Effect on profit before tax £ million	Effect on equity £ million
	per cent			per cent		
	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)	Increase /(decrease)
2016	10 (10)	(2) 2	(42) 42	10 (10)	1 (1)	(7) 7
2015	10 (10)	- -	(23) 23	10 (10)	- -	(7) 7

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been less than £1 million adverse (2015: less than £1 million) impact on the Group and Company's shareholders' equity and income statement. A 50 basis point decrease in interest rates would have resulted in less than £1 million favourable (2015: less than £1 million) impact on shareholders' equity and the income statement for both the Group and the Company.

26 Financial risk management objectives and policies continued

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the Group Treasury Committee. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to the Group. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every Group Treasury Committee meeting.

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements.

The Group does not hold any collateral to mitigate this exposure. Credit risks arising from acting as guarantor are disclosed in note 32.

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the volatile nature of the underlying business, IAG Group Treasury maintains flexibility in funding by using committed credit lines.

The stability of the liquidity position is maintained through the Group having no financial covenants or material adverse change clauses in its drawn and undrawn debt facilities. In addition, fuel and currency hedging is carried out on an open credit basis with no collateralisation or margin call requirements.

At 31 December 2016 the Group and Company had unused overdraft facilities of £10 million (2015: £10 million).

The Group and Company held undrawn uncommitted money market lines of £25 million as at 31 December 2016 (2015: £25 million).

The Group and Company had the following available undrawn general and committed aircraft financing facilities:

million	31 December 2016	
	Currency	£ equivalent
US dollar facility expiring December 2021	\$1,164	942
US dollar facility expiring June 2022	\$1,030	833

million	31 December 2015	
	Currency	£ equivalent
US dollar facility expiring September 2016	\$322	216
US dollar facility expiring October 2016	\$509	341
US dollar facility expiring December 2016	\$416	279
US dollar facility expiring December 2021	\$1,164	780
US dollar facility expiring June 2022	\$1,750	1,173

26 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

£ million	Group					Total 2016
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Financial assets						
Cash and cash equivalents	1,070	-	-	-	-	1,070
Other current interest-bearing deposits	185	1,240	-	-	-	1,425
Trade receivables	710	-	-	-	-	710
Other current assets	104	55	-	-	-	159
Other non-current assets	-	-	88	174	-	262
Derivative financial instruments:						
Forward currency contracts	31	34	24	2	-	91
Fuel derivatives	35	29	23	3	-	90
Currency option contracts	4	6	9	-	-	19
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(259)	(390)	(667)	(1,588)	(2,226)	(5,130)
Fixed rate borrowings	(56)	(21)	(42)	(125)	(27)	(271)
Floating rate borrowings	(28)	(30)	(45)	(81)	(153)	(337)
Trade and other payables	(1,662)	-	(10)	-	-	(1,672)
Derivative financial instruments:						
Forward currency contracts	(9)	(1)	(2)	-	-	(12)
Fuel derivatives	(4)	(3)	(3)	-	-	(10)
Currency option contracts	-	(1)	-	-	-	(1)
As at 31 December	121	918	(625)	(1,615)	(2,406)	(3,607)

£ million	Group					Total 2015
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Financial assets						
Cash and cash equivalents	848	-	-	-	-	848
Other current interest-bearing deposits	1,014	185	-	-	-	1,199
Trade receivables	541	-	-	-	-	541
Other current assets	232	31	-	-	-	263
Other non-current assets	-	-	110	224	-	334
Derivative financial instruments:						
Forward currency contracts	34	23	10	2	-	69
Currency option contracts	1	1	-	-	-	2
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(185)	(231)	(504)	(1,335)	(1,809)	(4,064)
Fixed rate borrowings	(31)	(323)	(82)	(123)	(59)	(618)
Floating rate borrowings	(45)	(38)	(37)	(74)	(151)	(345)
Trade and other payables	(1,548)	-	(3)	-	-	(1,551)
Derivative financial instruments:						
Forward currency contracts	(1)	-	-	(1)	-	(2)
Fuel derivatives	(378)	(168)	(85)	(16)	-	(647)
As at 31 December	482	(520)	(591)	(1,323)	(2,019)	(3,971)

26 Financial risk management objectives and policies continued

e Liquidity risk continued

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

£ million						Company
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2016
Financial assets						
Cash and cash equivalents	1,003	-	-	-	-	1,003
Other current interest-bearing deposits	185	1,240	-	-	-	1,425
Trade receivables	693	-	-	-	-	693
Other current assets	398	79	-	-	-	477
Other non-current assets	-	-	115	254	18	387
Derivative financial instruments:						
Forward currency contracts	31	34	24	2	-	91
Fuel derivatives	35	29	23	3	-	90
Currency option contracts	4	6	9	-	-	19
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(271)	(403)	(689)	(1,604)	(2,226)	(5,193)
Fixed rate borrowings	(72)	(40)	(59)	(177)	(579)	(927)
Floating rate borrowings	(18)	(19)	(25)	(77)	(154)	(293)
Trade and other payables	(2,128)	-	(7)	-	-	(2,135)
Derivative financial instruments:						
Forward currency contracts	(13)	(2)	(2)	-	-	(17)
Fuel derivatives	(4)	(3)	(3)	-	-	(10)
Currency option contracts	-	(1)	-	-	-	(1)
As at 31 December	(157)	920	(614)	(1,599)	(2,941)	(4,391)

£ million						Company
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Total 2015
Financial assets						
Cash and cash equivalents	790	-	-	-	-	790
Other current interest-bearing deposits	1,014	185	-	-	-	1,199
Trade receivables	527	-	-	-	-	527
Other current assets	483	46	-	-	-	529
Other non-current assets	-	-	135	293	37	465
Derivative financial instruments:						
Forward currency contracts	34	23	10	2	-	69
Currency option contracts	1	1	-	-	-	2
Financial liabilities						
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(196)	(244)	(530)	(1,373)	(1,810)	(4,153)
Fixed rate borrowings	(42)	(290)	(82)	(153)	(550)	(1,117)
Floating rate borrowings	(34)	(37)	(32)	(65)	(151)	(319)
Trade and other payables	(3,028)	-	-	-	-	(3,028)
Derivative financial instruments:						
Forward currency contracts	(1)	-	-	(1)	-	(2)
Fuel derivatives	(378)	(168)	(85)	(16)	-	(647)
As at 31 December	(830)	(484)	(584)	(1,313)	(2,474)	(5,685)

26 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following table sets out the carrying amounts of derivatives recognised in the Group and Company balance sheets that are subject to the above.

£ million	Group and Company		
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet
31 December 2016			
Financial assets			
- Forward currency contracts	91	-	91
- Currency option contracts	26	(7)	19
- Fuel derivatives	860	(770)	90
	977	(777)	200
Financial liabilities			
- Forward currency contracts	(12)	-	(12)
- Currency option contracts	(8)	7	(1)
- Fuel derivatives	(780)	770	(10)
	(800)	777	(23)
	177	-	177

£ million	Group and Company		
	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet
31 December 2015			
Financial assets			
- Forward currency contracts	69	-	69
- Currency option contracts	4	(2)	2
- Fuel derivatives	12	(12)	-
	85	(14)	71
Financial liabilities			
- Forward currency contracts	(2)	-	(2)
- Currency option contracts	(2)	2	-
- Fuel derivatives	(659)	12	(647)
	(663)	14	(649)
	(578)	-	(578)

g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the net debt/total capital ratio of 38.5 per cent (2015: 34.9 per cent). Net debt is defined as the total borrowings, finance lease liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. Total capital is defined as the total of share capital and share premium (see note 28), reserves (see note 30a), non-controlling interests (see note 30a) and net debt (see note 20b).

27 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments as at 31 December 2016 and 31 December 2015 by nature and classification for measurement purposes is as follows:

At 31 December 2016	Financial assets			Group	
	Loans and receivables	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
£ million					
Non-current financial assets					
Available-for-sale financial assets	-	-	53	-	53
Derivative financial instruments	-	61	-	-	61
Other non-current assets ¹	253	-	-	194	447
Current financial assets					
Trade receivables	710	-	-	-	710
Derivative financial instruments	-	139	-	-	139
Other current assets ¹	155	-	-	439	594
Other current interest-bearing deposits	1,425	-	-	-	1,425
Cash and cash equivalents	1,070	-	-	-	1,070

¹ Within the Company, total other non-current assets are £526 million, of which loans and receivables are £352m and non-financial assets are £174m. Total other current assets in the Company are £783 million, of which loans and receivables are £466 million and non-financial assets are £317 million.

	Financial liabilities		Group	
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
£ million				
Non-current financial liabilities				
Interest-bearing long-term borrowings	4,470	-	-	4,470
Derivative financial instruments	-	5	-	5
Other long-term liabilities ¹	10	-	51	61
Current financial liabilities				
Current portion of long-term borrowings	680	-	-	680
Trade and other payables ¹	1,662	-	2,674	4,336
Derivative financial instruments	-	18	-	18

¹ Within the Company, total other long-term liabilities are £38 million, of which loans and payables are £7 million and non-financial liabilities are £31 million. Total trade and other payables in the Company are £4,712 million, of which loans and payables are £2,128 million and non-financial liabilities are £2,584 million.

27 Financial instruments continued

a Financial assets and liabilities by category continued

At 31 December 2015

£ million	Financial assets			Group	
	Loans and receivables	Derivatives used for hedging	Available for sale	Non-financial assets	Total carrying amount
Non-current financial assets					
Available-for-sale financial assets	-	-	47	-	47
Derivative financial instruments	-	12	-	-	12
Other non-current assets ¹	326	-	-	14	340
Current financial assets					
Trade receivables	541	-	-	-	541
Derivative financial instruments	-	59	-	-	59
Other current assets ¹	259	-	-	355	614
Other current interest-bearing deposit	1,199	-	-	-	1,199
Cash and cash equivalents	848	-	-	-	848

¹ Within the Company, total other non-current assets are £441 million, all of which are classified as loans and receivables. Total other current assets in the Company are £760 million, of which loans and receivables are £519 million and non-financial assets are £241 million.

£ million	Financial liabilities		Group	
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	Total carrying amount
Non-current financial liabilities				
Interest-bearing long-term borrowings	3,782	-	-	3,782
Derivative financial instruments	-	101	-	101
Other long-term liabilities ¹	3	-	59	62
Current financial liabilities				
Current portion of long-term borrowings	728	-	-	728
Trade and other payables ¹	1,548	-	2,649	4,197
Derivative financial instruments	-	548	-	548

¹ Within the Company, total other long-term liabilities are £36 million, all of which are classified as non-financial liabilities. Total trade and other payables in the Company are £5,559 million, of which loans and payables are £3,028 million and non-financial liabilities are £2,531 million.

27 Financial instruments continued

b Fair values of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2016 are set out below:

£ million	Fair value				Group
	Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets ¹	13	-	40	53	53
Amounts owed by parent	-	305	-	305	304
Forward currency contracts	-	91	-	91	91
Currency option contracts	-	19	-	19	19
Fuel derivatives	-	90	-	90	90
Financial liabilities:					
Interest-bearing loans and borrowings:¹					
Finance leases	-	4,784	-	4,784	4,598
Fixed rate borrowings	-	260	-	260	240
Floating rate borrowings	-	312	-	312	312
Forward currency contracts	-	12	-	12	12
Currency option contracts	-	1	-	1	1
Fuel derivatives	-	10	-	10	10

¹ Within the Company, available-for-sale financial assets of £40 million are fair valued at £40 million (Level 3), finance lease obligations of £4,657 million are fair valued at £4,847 million (Level 2), fixed rate borrowings of £107 million are fair valued at £117 million (Level 2) and floating rate borrowings of £268 million are fair valued at £268 million (Level 2).

The carrying amounts and fair values of the Group's financial assets and liabilities as at 31 December 2015 are set out below:

£ million	Fair value				Group
	Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets:					
Available-for-sale financial assets ¹	7	-	40	47	47
Forward currency contracts	-	69	-	69	69
Currency option contracts	-	2	-	2	2
Financial liabilities:					
Interest-bearing loans and borrowings:¹					
Finance leases	-	3,829	-	3,829	3,634
Fixed rate borrowings	261	379	-	640	545
Floating rate borrowings	-	331	-	331	331
Forward currency contracts	-	2	-	2	2
Fuel derivatives	-	647	-	647	647

¹ Within the Company, available-for-sale financial assets of £40 million are fair valued at £40 million (Level 3), finance lease obligations of £3,714 million are fair valued at £3,886 million (Level 2), fixed rate borrowings of £494 million are fair valued at £526 million (Level 1: £261 million and Level 2: £265 million) and floating rate borrowings of £299 million are fair valued at £299 million (Level 2). The Group and Company amounts owed by parent of £292 million approximates the fair value of the financial asset.

27 Financial instruments continued

b Fair values of financial assets and financial liabilities continued

The fair value of financial assets and liabilities is included at the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of cash and cash equivalents, other current interest bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Available-for-sale financial assets and loan notes

Listed fixed asset investments (Level 1) are stated at market value as at 31 December 2016. For unquoted investments (Level 3) where the fair value cannot be measured reliably, the investment is stated at historic cost less accumulated impairment losses.

Forward currency transactions and over-the-counter (OTC) fuel derivatives

These derivatives are entered into with various counter-parties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date (Level 2) using forward pricing models. Changes in counterparty and own credit risk are deemed to be not significant.

Bank and other loans and finance leases

The fair value of the Group's interest-bearing borrowings and loans including leases, are determined by discounting the remaining contractual cash-flows at the relevant market interest rates as at 31 December 2016 (Level 2).

There have been no transfers between levels of the fair value hierarchy during the period. Out of the financial instruments listed in the table above, only the interest-bearing loans and borrowings are not measured at fair value on a recurring basis.

c Level 3 financial assets reconciliation

The following table summarises key movements in the carrying value in Level 3 financial assets:

£ million	Group		Company	
	2016	2015	2016	2015
Balance at 1 January	40	44	40	44
Repayment of loan notes (classified as available-for-sale financial assets)	-	(4)	-	(4)
As at 31 December	40	40	40	40

For unquoted investments, fair value has been determined based on the most recent arm's length transaction for an identical instrument. The Group monitors transactions of these instruments on a regular basis to ensure the fair value is based on the most recent arm's length price.

27 Financial instruments continued

d Cash flow hedges

At 31 December 2016 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayment instalments in foreign currency, hedging foreign exchange risk on revenue cash inflows;
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel cash outflows; and
- Foreign exchange contracts; hedging foreign exchange risk on revenue cash inflows and certain operational payments.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below:

€ million	Group and Company					Total 2016
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Debt repayments to hedge future revenue	29	65	91	202	305	692
Forward contracts to hedge future payments	(26)	(37)	(24)	(2)	-	(89)
Hedges of future fuel purchases	(20)	(32)	(24)	(3)	-	(79)
	(17)	(4)	43	197	305	524
Related deferred tax credit						(91)
Total amount included within equity						433

Notional value of financial instruments used as cash flow hedging instruments:

million		Group and Company Notional amount
To hedge future currency revenues against euro		€480
To hedge future operating payments in US dollars		\$961
Hedges of future fuel purchases		\$2,543
Debt repayments to hedge future revenue	- US dollars	\$2,798
	- euro	€2,111
	- yen	¥60,577
	- yuan	¥623

Company

The Company undertakes hedging activities on behalf of other companies within the Group and performs the treasury activities of the Group centrally. As a result, the disclosures above apply to the Company as for the Group.

27 Financial instruments continued

d Cash flow hedges continued

£ million	Group and Company					Total 2015
	Within six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	
Debt repayments to hedge future revenue	5	11	24	19	(7)	52
Forward contracts to hedge future payments	(32)	(23)	(9)	(1)	-	(65)
Hedges of future fuel purchases	378	186	67	8	-	639
	351	174	82	26	(7)	626
Related deferred tax credit						(128)
Total amount included within equity						498

Notional value of financial instruments used as cash flow hedging instruments:

million	Group Notional amount
To hedge future currency revenues against US dollars	\$160
To hedge future operating payments in US dollars	\$1,551
Hedges of future fuel purchases	\$3,111
Debt repayments to hedge future revenue	\$3,061
- US dollars	
- euro	€1,498
- yen	¥41,698
- yuan	¥716

The ineffective portion recognised in the income statement that arose from hedges of future fuel purchases amounts to a gain of £14 million (2015: £54 million loss). There was no ineffective portion of cash flow hedges other than hedges of future fuel purchases.

28 Share capital and share premium

	Group and Company			
	2016		2015	
	Number of shares 000s	£ million	Number of shares 000s	£ million
Share capital allotted, called up and fully paid				
A1 Ordinary shares of £289.70 each	897	260	897	260
A2 Ordinary shares of £289.70 each	99	29	99	29
B Ordinary shares of £1 each	1,000	1	1,000	1
C Ordinary shares of £1 each	148	-	148	-
As at 31 December	2,144	290	2,144	290

£ million	Group and Company	
	2016	2015
Share premium as at 31 December	1,512	1,512

The A1 and A2 class ordinary shareholders have full voting and economic rights in accordance with the percentage of shares held. The B class ordinary shareholders have full voting rights in accordance with the percentage of shares held, however have minimal economic rights attached to them. The C class ordinary shareholders have full economic rights in accordance with the percentage of shares held, however are non-voting.

29 Share options

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at a grant price and share award plans whereby shares are issued to employees at no cost, subject to the achievement of specified performance targets by the BA Group for BA granted options and by the IAG Group for IAG granted shares.

The share-based payments charge has been recorded as part of 'employee costs' (note 8) in the income statement as follows:

£ million	2016	2015
IPSP and IDBP schemes recharged from IAG (b)	10	10
Total share-based payments charge recorded in employee costs	10	10

a BA granted schemes

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three year vesting period with the exception of grants made during the year to 31 March 2005, when there was a single re-test after a further year which measured performance of BA over the four year period from the date of grant. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. No further grants of options under the SOP have been made since 2005. During 2015, all outstanding options were exercised and no awards were outstanding as at 31 December 2015.

The British Airways Deferred Share Plan 2005 (DSP) was granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

Outstanding options from BA granted schemes are set out below:

£ million	Options with an exercise price ^a	
	2016	2015
As at 1 January	-	1
Exercised during the year ¹	-	(1)
Expired/cancelled	-	-
As at 31 December²	-	-
Of which exercisable	-	-

¹ The average share price at the date of exercise for options exercised in the prior year was £5.50, no options were available for exercise in 2016.

² The weighted average remaining life of options is zero months (2015: zero months).

³ No share options were outstanding at the year end (2015: nil).

BA settles all options exercised with IAG shares, held on the balance sheet as 'available-for-sale financial assets'. The Group monitors the number of listed IAG ordinary shares held against the exposure to exercisable options. At 31 December 2016, an insignificant number of shares were held (2015: insignificant).

b IPSP and IDBP schemes recharged from IAG

BA participates in two IAG share-based payment schemes, with awards to BA employees being made in plans operated by IAG that represent rights over its ordinary shares. The costs of these awards are recharged from IAG based on their determination of award fair values. The amount outstanding at the year end is included in the amounts owed to IAG as disclosed in note 33 (related party transactions). A brief description of the schemes is set out below:

i) IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. For 2011 to 2014, a conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. From 2015, the award was made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made between 2012 and 2014 will vest based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The award made in 2015 and 2016 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of return on invested capital targets.

ii) IAG Incentive Award Deferral Plan

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

30 Other reserves and non-controlling interests

a Group

£ million	Retained earnings	Unrealised gains and losses	Currency translation	Total	Group Non-controlling interests ¹
Balance at 1 January 2015	683	(613)	28	98	200
Profit for the year	2,493	-	-	2,493	15
Exchange losses	-	-	(9)	(9)	-
Fair value of cash flow hedges transferred to passenger revenue	-	(92)	-	(92)	-
Fair value of cash flow hedges transferred to fuel and oil costs	-	940	-	940	-
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	44	-	44	-
Net change in fair value of cash flow hedges	-	(684)	-	(684)	-
Share of movement in reserves of associates	(1)	-	-	(1)	-
Available-for-sale financial assets - marked to market	-	(8)	-	(8)	-
Available-for-sale financial assets - recycled to the income statement	-	1	-	1	-
Pension remeasurements	152	-	-	152	-
Cost of share-based payments	(2)	-	-	(2)	-
Income tax	(34)	(42)	-	(76)	-
Dividends	(260)	-	-	(260)	-
Distributions made to holders of perpetual securities	-	-	-	-	(15)
Total income and expense for the year	2,348	159	(9)	2,498	-
Balance at 1 January 2016	3,031	(454)	19	2,596	200
Profit for the year	1,329	-	-	1,329	16
Exchange gains	-	-	32	32	-
Fair value of cash flow hedges transferred to passenger revenue	-	(67)	-	(67)	-
Fair value of cash flow hedges transferred to fuel and oil costs	-	567	-	567	-
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	6	-	6	-
Net change in fair value of cash flow hedges	-	(405)	-	(405)	-
Share of movement in reserves of associates	20	-	-	20	-
Available-for-sale financial assets - marked to market	-	3	-	3	-
Available-for-sale financial assets - recycled to the income statement	-	(1)	-	(1)	-
Pension remeasurements ²	(1,829)	-	-	(1,829)	-
Income tax	369	(31)	-	338	-
Dividends	(350)	-	-	(350)	-
Distributions made to holders of perpetual securities	-	-	-	-	(16)
Total income and expense for the year	(461)	72	32	(357)	-
As at 31 December 2016	2,570	(382)	51	2,239	200

¹ Non-controlling interests comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. in which the general partner is British Airways Holdings Limited, a wholly-owned subsidiary of the Company. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the Company. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinated guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company. Refer to note 26g for the disclosure of the Group's Capital risk management.

² Significant adverse pension remeasurements were driven by the decline in bond yields resulting in a lower discount rate being applied to the pension liabilities.

Retained earnings

The retained earnings reserve represents the accumulated retained profits of the Group and includes the undistributable gain on the disposal of the BA Executive Club in 2015 of £1.6 billion.

Unrealised gains and losses

The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

30 Other reserves and non-controlling interests continued

b Company

£ million	Company		
	Retained earnings	Unrealised gains and losses	Total
Balance at 1 January 2015	619	(626)	(7)
Profit for the year	2,395	-	2,395
Fair value of cash flow hedges transferred to passenger revenue	-	(92)	(92)
Fair value of cash flow hedges transferred to fuel and oil costs	-	940	940
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	44	44
Net change in fair value of cash flow hedges	-	(688)	(688)
Available-for-sale financial assets - marked to market	-	(1)	(1)
Available-for-sale financial assets - recycled to the income statement	-	1	1
Pension remeasurements	146	-	146
Cost of share-based payments	(2)	-	(2)
Dividends	(260)	-	(260)
Income tax	(35)	(42)	(77)
Total income and expense for the year	2,244	162	2,406
Balance at 1 January 2016	2,863	(464)	2,399
Profit for the year	2,218	-	2,218
Fair value of cash flow hedges transferred to passenger revenue	-	(68)	(68)
Fair value of cash flow hedges transferred to fuel and oil costs	-	566	566
Fair value of cash flow hedges transferred to losses on fuel derivatives	-	6	6
Net change in fair value of cash flow hedges	-	(405)	(405)
Available-for-sale financial assets - recycled to the income statement	-	(1)	(1)
Pension remeasurements ¹	(1,814)	-	(1,814)
Income tax	366	(31)	335
Dividends	(350)	-	(350)
Total income and expense for the year	420	67	487
As at 31 December 2016	3,283	(397)	2,886

¹ Significant adverse pension remeasurements were driven by the decline in the bond yields resulting in a lower discount rate being applied to the pension liabilities.

See note 30a for a description of the reserves.

31 Employee benefits

The Company operates two significant defined benefit pension schemes, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. The Company's principal defined contribution scheme is the British Airways Retirement Plan (BARP), of which all new permanent employees over the age of 16 employed by the Company and certain subsidiary undertakings in the UK may become members.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the Government, which are based on the Consumer Price Index (CPI). Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the 'abatement') not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year.

As reported in previous years, the Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. BA has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme. BA is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which BA may ultimately be exposed as the principal employer and sponsor of the scheme. BA is committed to an existing recovery plan, which sees deficit payments of £55 million per annum until March 2023. BA initiated legal proceedings to determine the legitimacy of the additional discretionary increase and awaits the outcome of these proceedings. This discretionary increase has not been reflected in the accounting assumptions used.

31 Employee benefits continued

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two Schemes is common. Most Main Board and Committee meetings are held in tandem, although each Trustee Board reaches its decisions independently. There are three Committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (the 'triennial valuation') rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed at 31 March 2012 with respect to APS and 31 March 2015 with respect to NAPS (see note 31).

The actuarial valuations performed as at 31 March 2012 and 31 March 2015 are different to the valuation performed under IAS 19: Employee Benefits as of 31 December 2016 due mainly to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared to IAS 19 guidance used in the accounting valuation assumptions.

The defined benefit plans expose the Company to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Most employees engaged outside the UK are covered by appropriate local arrangements. The Company provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US PRMB (Post-Retirement Medical Benefit) plan.

a Employee benefit schemes recognised on the balance sheet

£ million	As at 31 December 2016			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	8,127	15,488	367	23,982
Present value of scheme liabilities	(6,777)	(17,183)	(649)	(24,609)
Net pension asset/(liability)	1,350	(1,695)	(282)	(627)
Effect of the asset ceiling ²	(489)	-	-	(489)
Other employee benefit obligations	-	-	(9)	(9)
	861	(1,695)	(291)	(1,125)
Represented by:				
Employee benefit assets				866
Employee benefit obligations ³				(1,991)
				(1,125)

£ million	As at 31 December 2015			
	APS	NAPS	Other ¹	Total
Scheme assets at fair value	7,232	13,126	304	20,662
Present value of scheme liabilities	(6,130)	(13,464)	(571)	(20,165)
Net pension asset / (liability)	1,102	(338)	(267)	497
Effect of the asset ceiling ²	(409)	-	-	(409)
Other employee benefit obligations	-	-	(9)	(9)
	693	(338)	(276)	79
Represented by:				
Employee benefit assets				697
Employee benefit obligations				(618)
				79

¹ The present value of scheme liabilities for the US PRMB was £15 million at 31 December 2016 (£45 million as at 31 December 2015).

² APS is in an IAS 19 accounting surplus, which would be available to the Company as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustees.

During 2015 the IASB published an exposure draft of amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction. The purpose of this proposed amendment is to provide additional clarity on the role of the trustees' rights in an assessment of the recoverability of a surplus on an employee pension fund. BA is considering the impact of this exposure draft on the APS surplus recognised but has not recognised any adjustments as the amendment remains in exposure draft form only.

³ Disclosures for post-retirement benefits are presented on a consolidated basis and include a net pension liability of £30 million (2015: £16 million) relating to British Airways Holidays Limited, with the remainder relating to the Company.

31 Employee benefits continued

b Pension costs charged/(credited) to the consolidated income statement

Pension costs charged/(credited) to operating profit:

£ million	2016	2015
Defined benefit plans:		
Past service gain ¹	-	(1)
Current service cost	158	193
	158	192
Defined contribution plans	65	53
Pension costs recorded as employee costs	223	245

¹ During the period the Group made changes to the US PRMB (Post-Retirement Medical Benefits) resulting in the recognition of a past service gain of £40 million which has been disclosed as an exceptional item outside of operating profit as set out in note 5.

Pension costs credited/(charged) as finance costs:

£ million	2016	2015
Interest income on scheme assets	771	750
Interest expense on scheme liabilities	(746)	(745)
Interest expense on asset ceiling	(15)	(14)
Net financing income/(expense) relating to pensions	10	(9)

c Remeasurements recognised in the statement of other comprehensive income

£ million	2016	2015
Return on plan assets excluding interest income	2,727	(336)
Remeasurement of plan liabilities from changes in financial assumptions ¹	(4,556)	363
Remeasurement of experience gains	111	134
Remeasurement of the APS asset ceiling	(65)	-
Exchange differences	(46)	(9)
Pension remeasurements	(1,829)	152

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

£ million	2016	2015
As at 1 January	20,662	20,593
Interest income	771	750
Return on plan assets excluding interest income	2,727	(336)
Employer contributions ²	731	495
Employee contributions	92	83
Benefits paid	(1,058)	(928)
Exchange differences	57	5
Fair value of scheme assets	23,982	20,662

¹ Includes employer contributions to APS of £91 million (2015: £87 million) and to NAPS of £618 million (2015: £389 million), of which deficit funding payments represented £86 million for APS (2015: £80 million) and £517 million for NAPS (2015: £283 million).

² Cash payments to pension schemes (net of service costs) reflected in the consolidated cash flow statement were £573 million (2015: £302 million), being the employer contributions of £731 million (2015: £495 million) less the current service cost of £158 million (2015: £193 million) as set out in note 31b.

31 Employee benefits continued

d Fair value of scheme assets continued

Scheme assets as at 31 December comprise:

£ million	2016	2015
Return seeking investments - equities		
UK	2,571	1,987
Overseas	6,320	5,187
	8,891	7,174
Return seeking investments - other		
Private equity	696	643
Property	1,504	1,562
Alternative investments	1,015	893
	3,215	3,098
Liability matching investments		
UK Fixed bonds	3,247	2,880
Overseas Fixed bonds	92	79
UK Index-Linked bonds	5,641	4,850
Overseas Index-Linked bonds	107	90
	9,087	7,899
Other		
Cash and cash equivalents	431	856
Derivatives	192	(83)
Insurance contract	1,579	1,406
Longevity swap	(30)	(29)
Other	617	341
	23,982	20,662

All equities and bonds have quoted prices in active markets.

For APS and NAPS, the composition of the scheme assets is:

£ million	As at 31 December 2016		As at 31 December 2015	
	APS	NAPS	APS	NAPS
Return seeking investments	1,334	10,596	1,255	8,875
Liability matching investments	5,006	3,987	4,451	3,367
	6,340	14,583	5,706	12,242
Insurance contract and related longevity swap	1,527	-	1,358	-
Other	260	905	168	884
Fair value of scheme assets	8,127	15,488	7,232	13,126

For both APS and NAPS, the Trustees have ultimate responsibility for decision making on investment matters, including the asset-liability matching strategy, which is designed to match the movement in pension plan assets with the movement in projected benefit obligations over time. The Investment Committee adopts an annual business plan which sets out investment objectives and the work required to support achievement of these objectives. The Investment Committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger-based dynamic governance process to be able to take advantage of opportunities as they arise. The Investment Committee review the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations differentiate between 'return-seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At 31 December 2016 the benchmark for APS was 19 per cent (2015: 19 per cent) in return seeking assets and 81 per cent (2015: 81 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2015: 68 per cent) in return seeking assets and 32 per cent (2015: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which now covers 20 per cent (2015: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 24 per cent (2015: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

Both schemes use derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest-rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

31 Employee benefits continued

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

£ million	2016	2015
As at 1 January	20,165	20,556
Current service cost	158	193
Past service credit	(40)	(1)
Interest expense	746	745
Remeasurements – financial assumptions	4,556	(363)
Remeasurements – demographic assumptions	(111)	(134)
Benefits paid	(1,058)	(928)
Employee contributions	92	83
Exchange differences	101	14
As at 31 December	24,609	20,165

The defined benefit obligation comprises £25 million (2015: £55 million) arising from unfunded plans and £24,584 million (2015: £20,110 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

£ million	2016	2015
As at 1 January	409	395
Interest expense	15	14
Remeasurements	65	-
As at 31 December	489	409

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2016			2015		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	2.60	2.70	2.7 – 4.1	3.60	3.85	3.8 – 4.4
Rate of increase in pensionable pay ²	3.20	3.20	3.0 – 3.7	2.85	3.00	3.0 – 4.0
Rate of increase of pensions in payment ³	2.10	2.10	1.5 – 3.5	1.85	2.00	1.5 – 3.5
RPI rate of inflation	3.20	3.20	3.0 – 3.2	2.85	3.00	3.0 – 3.1
CPI rate of inflation	2.10	2.10	2.1 – 3.0	1.85	2.00	2.1 – 3.0

¹ The discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities. The decline in these yields has resulted in lower discount rates being applied in 2016.

² Rate of increase in pensionable pay is assumed to be in line with long term market inflation expectations. The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds.

³ It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. However, the APS Trustees have purported to grant an additional discretionary increase of 20 basis points in relation to 2013/14 payments, a decision that BA has challenged. This has not been reflected in the IAS 19 assumptions and BA has commenced legal proceedings to determine the legitimacy of the additional increase.

For US PRMB the rate of increase in healthcare costs is based on medical trend rates of 6.75 per cent grading down to 5.0 per cent over seven years (2015: 7.0 per cent to 5.0 per cent over eight years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

		UK	
Mortality assumptions		2016	2015
Life expectancy at age 60 for a:			
- male currently aged 60		28.3	28.3
- male currently aged 40		29.9	29.9
- female currently aged 60		29.9	29.9
- female currently aged 40		32.4	32.4

At 31 December 2016, the weighted-average duration of the defined benefit obligation was twelve years for APS (2015: twelve years) and 20 years for NAPS years (2015: 19 years). In the US, mortality rates were based on the RP-14 mortality tables.

31 Employee benefits continued

h Sensitivity analysis

Reasonable possible changes at the reporting date to a significant actuarial assumption, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

£ million	Increase in net pension liability
Discount rate (decrease of 10 basis points)	438
Future salary growth (increase of 10 basis points)	82
Future pension growth (increase of 10 basis points)	331
Future mortality rate - one year increase in life expectancy	792

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2012 and 31 March 2015 respectively, using assumptions and methodologies agreed between the Company and Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to £680 million and £2,785 million respectively. In order to address the deficits in the schemes, BA has also committed to the following undiscounted deficit payments:

£ million	APS	NAPS
Within twelve months	55	300
Two to five years	220	1,200
Five to ten years	69	1,500
More than ten years	-	225
Total expected deficit payments for APS and NAPS	344	3,225

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan, subject to withholding taxes that would be payable by the Trustees. This determination has been made independently for each plan. As such, no additional liability is required.

Deficit payments in respect of local arrangements outside the UK have been determined in accordance with local practice.

In total, the Group expects to pay £576 million in employer contributions and deficit payments to the post-retirement benefit plans in 2017. This includes expected deficit contributions of £55 million to APS and £300 million to NAPS and excludes any additional deficit contribution that may become due depending on the Group's cash balance at 31 March 2017.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of its profits it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

32 Contingent liabilities and guarantees

a Contingent Liabilities

The Group and the Company have contingent liabilities which at 31 December 2016 amounted to £102 million (2015: £90 million). These contingent liabilities include claims and litigation related to operations and tax affairs.

The Group also has the following claims:

Regulatory proceedings and litigation

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. The decision was partially annulled as against British Airways following an appeal to the general court of the European Union and the fine was refunded in full. In May 2016 the Commission expressed its intention to adopt a new decision amending the 2010 Decision insofar as that Decision was annulled by the General Court. It expects to adopt a new decision in 2017.

The original decision has led to a large number of claimants seeking, in proceedings brought in the English courts, to recover damages from British Airways which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any awarded.

The Group is also party to similar litigation in a number of other jurisdictions including Germany, the Netherlands and Canada together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

On the basis of latest information obtained and advice from legal counsel, we are currently unable to determine whether the Group has an existing obligation as a result of the past event.

Pensions

The Trustees of the Airways Pension Scheme (APS) have proposed an additional discretionary increase above CPI for pensions in payment for the year to 31 March 2014. British Airways has challenged the decision, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings is uncertain and, once known, the delayed 2015 triennial valuation will resume so that an appropriate funding plan can be agreed with the Trustees. The outcome is expected in 2017, and may result in changes to the obligations under the scheme which would be recognised in the financial statements.

b Guarantees

Bank guarantees

The Group and Company have issued bank guarantees totalling £41 million (2015: £35 million) respectively.

Pensions

The Group and Company have provided collateral on certain payments to the Company's pension scheme, APS and NAPS, which at 31 December 2016 amounted to £250 million (2015: £250 million). This amount would be payable in the event that the pension schemes are not fully funded on a gilts basis on 1 January 2019 and will be determined by the Scheme Actuary.

In addition, a guarantee amounting to £230 million (2015: £230 million) was issued by a third party in favour of APS, triggered in the event of a BA insolvency.

Perpetual securities and audit exemptions

The Company has also issued guarantees in respect of the fixed perpetual preferred securities issued by a subsidiary undertaking which amounted to £253 million (2015: £219 million) and in relation to statutory audit exemptions that certain subsidiary companies are taking. See note 35 in respect of audit exemptions.

33 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2016 with related parties.

£ million	Group		Company	
	2016	2015	2016	2015
Parent¹:				
Sales to/purchases on behalf of IAG	47	55	47	55
Purchases from IAG	42	41	42	41
Amounts owed by IAG	35	36	35	36
Amounts owed to IAG	20	18	20	18
Subsidiary undertakings of the parent:				
Sales to subsidiary undertakings of the parent	67	37	67	37
Purchases on behalf of subsidiary undertakings of the parent	164	55	164	55
Amounts owed by subsidiary undertakings of the parent	322	303	322	303
Amounts owed to subsidiary undertakings of the parent	63	48	63	48
Associates²:				
Sales to associates	429	305	429	305
Purchases from associates	353	363	353	363
Amounts owed by associates	184	40	184	40
Amounts owed to associates	996	926	996	926
Subsidiaries³:				
Sales to subsidiaries	-	-	360	328
Purchases from subsidiaries	-	-	159	163
Amounts owed by subsidiaries	-	-	410	388
Amounts owed to subsidiaries	-	-	1,021	1,987

¹ The transactions between the Group and IAG comprise mainly of a management fee in respect of services provided by IAG and recharges between the entities in respect of invoices settled on behalf of the other party. Transactions with IAG are carried out on an arm's length basis.

² Sales and purchases with associates are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms.

³ Outstanding trading balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to and from the Company by subsidiary undertakings bear market rates of interest.

In addition, costs borne by the Company on behalf of the Group's retirement benefit plans amounted to £6 million in relation to the Pension Protection Fund levy (2015: £5 million).

Neither the Group nor the Company have benefitted from any guarantees for any related party receivables or payables. During the year ended 31 December 2016 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: £nil).

Directors' and officers' loans and transactions

There were no loans or credit transactions with Directors or officers of the Company at 31 December 2016 or that arose during the year that need to be disclosed in accordance with the requirements of sections 412 and 413 to the Companies Act 2006.

34 Post balance sheet event

No significant events have taken place post the balance sheet date.

35 Subsidiary audit exemption

The following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2016 by virtue of Section 479A of the Companies Act 2006: British Airways Leasing Limited (04150220), BA and AA Holdings Limited (03840072), British Airways 777 Leasing Limited (04954270), BritAir Holdings Limited (03537574), British Airways (BA) Limited (07990613), British Airways Associated Companies Limited (00590083), BA European Limited (06346489), British Airways Avionic Engineering Limited (02775232), British Airways Interior Engineering Limited (03109109), British Airways Maintenance Cardiff Limited (02204178), The Plimsoll Line Limited (01967358) and Teleflight Limited (03918190).

36 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking as at 31 December 2016 was International Consolidated Airlines Group S.A., which is incorporated in Spain.

The Company is included within the consolidated financial statements of IAG which are publicly available on the website www.iagshares.com.

Subsidiary undertakings at 31 December 2016

The holdings disclosed concern ordinary shares and are wholly owned unless otherwise stated.

Name of company	Country of incorporation and principal operations	Principal activities	Registered address
BA and AA Holdings Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Call Centre India Private Limited (calIBA) ²	India	Call centre	F-42, East of Kailash, New Delhi, 110065
BA Cityflyer Limited	England	Airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA European Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Healthcare Trust Limited	England	Healthcare	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Number One Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BA Number Two Limited ²	Jersey	Holding company	13 Castle Street, St Helier, JE4 5UT
Bealine plc	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
bmibaby Limited ²	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
BritAir Holdings Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways (BA) Limited	England	Airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways 777 Leasing Limited	England	Aircraft Leasing	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Associated Companies Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Avionic Engineering Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Capital Limited	Jersey	Bonds	Queensway House, Hilgrove Street, St Helier, JE1 1ES
British Airways Ejets Leasing Limited ²	Bermuda	Aircraft Leasing	Canon's Court, 22 Victoria Street, Hamilton, HM 12
British Airways Employee Benefits Trustees (Jersey) Limited	Jersey	Trustee company	Queensway House, Hilgrove Street, St Helier, JE1 1ES
British Airways Finance (Jersey) Limited Partnership	Jersey	Finance	13 Castle Street, St Helier, JE4 5UT
British Airways Holdings BV ²	Netherlands	Holding company	Scrawinskylaan 3105, Atrium 1077ZX Amsterdam
British Airways Holdings Limited	Jersey	Holding company	13 Castle Street, St Helier, JE4 5UT
British Airways Holidays Limited	England	Tour operator	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Interior Engineering Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Leasing Limited	England	Aircraft Leasing	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Maintenance Cardiff Limited	England	Engineering	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Airways Pension Trustees (No 2) Limited	England	Trustee company	Whitlocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HL
British Airways Plc Employee Share Ownership Trust	Jersey	Trust	Queensway House, Hilgrove Street, St Helier, JE1 1ES
British Mediterranean Airways Limited ^{1,2}	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Midland Airways Limited ²	England	Former airline	Waterside, PO Box 365, Harmondsworth, UB7 0GB
British Midland Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Diamond Insurance Company Limited ²	Isle of Man	Insurance	1st Floor, Rose House, 51-59 Circular Road, Douglas
Flyline Tele Sales & Services GmbH	Germany	Call centre	Hermann Koehl-Strasse 3, 28199 Bremen
Gatwick Ground Services Limited	England	Ground Services	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Illiad Inc	USA	Holding company	Suite 1300, 1105 North Market Street, PO Box 8985, Wilmington, 19899 Delaware
OpenSkies SASU ²	France	Airline	3 rue Le Corbusier, 94150 Rungis
Overseas Air Travel Limited ²	England	Transport	Waterside, PO Box 365, Harmondsworth, UB7 0GB
Speedbird Insurance Company Limited	Bermuda	Insurance	Canon's Court, 22 Victoria Street, Hamilton, HM 12
Teleflight Limited	England	Call centre	Waterside, PO Box 365, Harmondsworth, UB7 0GB
The Plimsoll Line Limited	England	Holding company	Waterside, PO Box 365, Harmondsworth, UB7 0GB

¹99.0% holding

²Not directly owned by British Airways Plc

Associated undertakings at 31 December 2016

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principal activities	Registered address
IB Opco Holding S.L. ¹	13.55	Spain	Airline operations	Calle Velazquez 130, 28006 Madrid
Dunwoody Airline Services Limited	40.00	England	Airline operations	Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA
Avios Group (AGL) Limited (formerly The Mileage Company Limited)	86.26	England	Airline marketing	Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY

¹Not directly owned by British Airways Plc

Available-for-sale investments at 31 December 2016

The holdings disclosed concern ordinary shares unless otherwise stated.

Name of company	Percentage ownership	Country of incorporation and principal operations	Principle activities	Registered address
Comair Limited ¹	11.50	South Africa	Airline operations	1 Marignane Drive, Bonaero Park, 1619
International Consolidated Airlines Group S.A.	0.002	Spain	Airline operations	El Caserío, Iberia Zona Industrial n° 2 (La Muñoz), Camino de La Muñoz, s/n, 28042 Madrid.
The Airline Group Limited	16.68	England	Air traffic control holding company	Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN

¹Not directly owned by British Airways Plc

Operating and financial statistics

Not forming part of the audited financial statements

		Year ended 31 December		
Total Group continuing operations		2016	2015	2014
Traffic and capacity				
Revenue passenger km (RPK)	m	145,173	142,016	138,431
Available seat km (ASK)	m	178,731	174,274	170,917
Passenger load factor	%	81.2	81.5	81.0
Cargo tonne km (CTK)	m	4,233	4,180	4,458
Total revenue tonne km (RTK)	m	18,621	18,256	18,198
Total available tonne km (ATK)	m	26,237	25,427	25,185
Overall load factor	%	71.0	71.8	72.3
Passengers carried	'000	44,455	43,323	41,516
Tonnes of cargo carried	'000	470	664	706
Operations				
Average manpower equivalent (MPE)		39,178	39,304	39,710
ASKs per MPE		4,562	4,434	4,304
Aircraft in service at year end		293	284	279
Aircraft utilisation (average hours per aircraft per day)		11.08	10.59	10.44
Punctuality - within 15 minutes	%	77	78	79
Regularity	%	99.0	99.1	99.2
Financial				
Passenger revenue per RPK	p	7.12	7.21	7.55
Passenger revenue per ASK	p	5.78	5.87	6.12
Cargo revenue per CTK	p	13.92	13.09	13.41
Average fuel price (US cents/US gallon)		163.00	174.44	301.50
Operating margin	%	12.1%	10.9	8.3
Operating margin before exceptional items	%	12.9%	11.1	8.3
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	2,402	2,133	1,886
Net debt/total capital ratio	%	38.5	34.9	48.1
Total traffic revenue per ATK	p	41.7	42.1	43.9
Total traffic revenue per ASK	p	6.1	6.1	6.5
Total expenditure before exceptional items on operations per ASK	p	5.58	5.78	6.29
Total expenditure before exceptional items on operations excluding fuel per ASK	p	4.20	4.04	4.23
Total expenditure before exceptional items on operations per ATK	p	38.0	39.6	42.6

Operating statistics do not include those of associate undertakings and franchisees.

Fleet table

Number in service with Group companies at 31 December 2016

	On Balance Sheet fixed assets	Off Balance Sheet operating leases	Total December 2016	Total December 2015	Changes since December 2015 (Note 2)	Future deliveries (Note 3)	Options (note 4)
CONTINUING AIRLINE OPERATIONS (note 1)							
Airbus A318	2		2	2			
Airbus A319	19	25	44	44			
Airbus A320	40	27	67	66	1	25	33
Airbus A321	14	4	18	18		10	
Airbus A350						18	36
Airbus A380	12		12	10	2		7
Boeing 747-400	37		37	40	(3)		
Boeing 757-200	1	2	3	3			
Boeing 767-300	8		8	12	(4)		
Boeing 777-200	41	5	46	46			
Boeing 777-300	9	3	12	12			
Boeing 787-8	8		8	8		4	
Boeing 787-9	7	9	16	5	11	2	6
Boeing 787-10						12	
Embraer E170	6		6	6			
Embraer E190	9	5	14	12	2		15
TOTAL CONTINUING OPERATIONS	213	80	293	284	9	71	97

Notes:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. One Airbus A320, two Airbus A380's, eleven Boeing 787-9s and two Embraer E190 were delivered and went into service during the period. Four 767-300 aircraft were stood down from service and disposed, three 747-400 BNL, BNLV & BNLJ were stood down.
3. Future deliveries have decreased by 16. Two Airbus A380, one Airbus A320, eleven Boeing B787-9s, and two Embraer E190 were delivered during the period.
4. There have been no changes to options held during the period.

Airline operations	This includes British Airways Plc, BA Cityflyer Limited, Flyline Tele Sales & Services GmbH, OpenSkies SASU and British Midland Airways Limited.
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Continuing operations	The segments of the business that are considered to be normal, and expected to operate in the foreseeable future.
Discontinued operations	A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and aircraft rentals.
Exceptional items	Those items that in management's view need to be separately disclosed by virtue of their size or incidence.
JOLCO	Japanese operating lease with call option.
Load factor	The percentage relationship of revenue load carried to capacity available.
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors.
Merger	The combining of two or more entities through a purchase acquisition.
Net debt	Loans, finance leases and hire purchase arrangements net of other current interest-bearing deposits and cash and cash equivalents less overdrafts.
Net debt/total capital ratio	Net debt as a ratio of total capital.
nm	Not meaningful.
n/a	Not applicable.
Operating margin	Operating profit/(loss) as a percentage of total revenue.
Overall load factor	RTK expressed as a percentage of ATK.
Passenger load factor	RPK expressed as a percentage of ASK.
EETC	This is the enhanced equipment trust certificate borrowing facility obtained in 2013 and secured on related aircraft upon drawdown.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Ready-to-go	The percentage of flights that have the aircraft door being closed three minutes prior to the advertised scheduled departure time.
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.
Revenue passenger kilometres (RPK)	The number of revenue passengers carried multiplied by the distance flown.
Passenger revenue per ASK	Passenger revenue divided by ASK.
Passenger revenue per RPK	Passenger revenue divided by RPK.
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown.
Total capital	Total equity plus net debt.
Total Group revenue per ASK	Total Group revenue divided by ASK.
Total traffic revenue per ASK	Revenue from total traffic divided by ASK.
Total traffic revenue per ATK	Revenue from total traffic divided by ATK.